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FINANCIAL TIMES

Europe's Business Newspaper

WEDNESDAY FEBRUARY 9 1994

Russia and China oppose air strikes on Bosnian Serbs

Two of the five permanent members of the United Nations Security Council voiced opposition to air strikes against the Bosnian Serbs. Russia claimed UN secretary-general Boutros Boutros Ghali had exceeded his authority in instructing Nato to prepare for such action. China said it wanted to see only peaceful means used. Nato ministers are due to consider the issue in Brussels today. Page 16

China envoy under fire from Hurd: China's ambassador to Britain was criticised by UK foreign secretary Douglas Hurd, for suggesting British companies would suffer discrimination in China because of the Hong Kong dispute. Page 16

German doll fetches world record price

A German collector paid a world record £188,500 ($282,750) for a porcelain doll at Sotheby's, the London auctioneers. The doll (left) made in 1909 by the German company, Kämmer and Reinhardt, is thought to have been made from an experimental mould which was never used in production. The collector has all other dolls in the series made from the mould. Sotheby's sold a similar Kämmer and Reinhardt doll in 1989 for £90,200.

Bell rival targets London: MFS Communications, largest national provider of urban networks competing with local Bell companies in the US, is to launch a network in London. Page 16; Editorial Comment, Page 15

Sears, Roebuck, third-largest US retailer and the majority owner in Allstate Insurance, reported record earnings for 1993 but disappointed investors with flat results in the quarter. Page 17

US warning on Japan's chip market: Japan and the US were "drifting toward an era of confrontation and recriminations" over foreign access to Japan's semiconductor market, the US industry warned in a letter to President Bill Clinton, who meets Japanese prime minister Morihiro Hosokawa next week. Page 5

Mideast talks make progress: Israel and Palestinians made solid progress towards drafting a long-delayed agreement on security issues to implement Palestinian self-rule in the Gaza Strip and West Bank area of Jericho. Page 4

Sheraton buys Ciga: Sheraton, international hotels group owned by ITT of the US, emerged as the surprise buyer of Ciga, troubled luxury hotels chain controlled by the Aga Khan. Page 17

Canada cuts taxes to curb smuggling: Canada sharply cut tobacco taxes to combat cigarette smuggling across its border with the US, but added a "health-promotion" surtax on cigarette makers' profits. Page 3

All Nippon Airways, Japan's second-largest carrier by turnover, announced a restructuring plan designed to raise operating profits by Y26bn ($232m) in 1994-95. ANA made post-tax profits of Y2.4bn during the year to March 1993. Page 20

Channel tunnel services delayed: Further locomotive testing will prevent the Channel tunnel starting passenger services on May 8. Freight services, due to have started in March, could be delayed until early May. Page 7

Pfizer slide: Shares in Pfizer, until recently highest-flying US drugs company, tumbled again after it issued a muted profits warning for this quarter. Page 19: Japan to cut drug prices, Page 4

Toyota, Japan's largest carmaker, suffered a 48.7 per cent fall to Y83.24bn ($764m) in pre-tax profits in the six months to end-December because of a weak domestic market and a sharply stronger yen. Page 19

Witold Lutoslawski dies: Polish composer Witold Lutoslawski died in Warsaw aged 81. His work, which was once banned by the former communist government, includes symphonies, concertos for cello and for oboe and harp, and settings of French verse to music including *Three Poems* of Henri Michaux in 1963 and *Les Espaces du Sommeil* in 1975.

Arnold Smith, the first Commonwealth secretary-general, has died at his Toronto home aged 79.

■ STOCK MARKET INDICES		
FT-SE 100	3,440.2	(+21.1)
Yield	3.42	
FT-SE Eurotrack 100	1,512.37	(+16.83)
FT-SE-A All-Share	1,733.58	(+0.8%)
Nikkei	20,251.23	(+236.83)
New York: lunchtime		
Dow Jones Ind Ave	3,910.25	(+3.94)
S&P Composite	470.92	(-0.84)
■ US LUNCHTIME RATES		
Federal Funds	3⅛%	
3-mo Treas Bills: Yld	3.302%	
Long Bond	97½	
Yield	6.411%	
■ LONDON MONEY		
3-mo Interbank	5¼%	(5½%)
Liffe long gilt future	Mar 116¼	(Mar 116½)
■ NORTH SEA OIL (Argus)		
Brent 15-day (Apr)	$14.065	(14.255)
■ Gold		
New York Comex (Apr)	$384.1	(380.7)
London	$380.4	(384.7)

■ STERLING		
New York lunchtime:		
$	1.4675	
London:		
$	1.47	(1.4811)
DM	2.5956	(2.6111)
FFr	8.8013	(8.848)
SFr	2.1786	(2.1814)
Y	160.078	(160.998)
£ Index	81.5	(82.0)
■ DOLLAR		
New York lunchtime:		
DM	1.764	
FFr	5.9805	
SFr	1.482	
Y	108.75	
London:		
DM	1.7658	(1.736)
FFr	5.9875	(5.975)
SFr	1.4821	(1.4715)
Y	108.9	(109.05)
$ Index	67.7	(67.5)
Tokyo close Y 108.7		

Austria	Sch22	Greece	Dr350	Lux	LFr65	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$16	Malta	Lm0.60	S.Arabia	SR11
Belgium	BFr65	Hungary	Ft195	Morocco	MDh15	Singapore	S$4.30
Bulgaria	Lv35.00	Iceland	IKr215	Neth	Fl 4.00	Slovak Rp	KSL50
Cyprus	C£1.10	India	Rs60	Nigeria	Naira50	South Africa	R12.00
Czech Rp	CZK50	Israel	Shk6.90	Norway	NKr17.00	Spain	Pta225
Denmark	DKr16	Italy	L3000	Oman	OR1.50	Sweden	SKr16
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Switz	SFr3.30
Finland	FM14	Jordan	JD1.50	Philippines	Peso50	Syria	S£50.00
France	FFr9.00	Kuwait	Fils.625	Poland	Zl 32,000	Tunisia	Din1.500
Germany	DM3.50	Lebanon	US$1.50	Portugal	Es225	Turkey	L13000
						UAE	Dh12.00

Hosokawa alters tax plans to win coalition support for package

Japan agrees stimulus deal

By William Dawkins in Tokyo

Japan yesterday announced a record Y15,250bn ($136bn) package of tax cuts, government spending and loans, designed to pull the economy out of its deepest recession since the second world war.

The stimulus package, to be implemented over the next year or so, consists of Y5,850bn income tax cuts, and Y9,400bn in public works spending and loans and grants for business and housing.

The compromise was made possible by prime minister Morihiro Hosokawa's decision to freeze his plans for a new 7 per cent sales tax in three years' time. It had been opposed by the Social Democratic party, the largest member of the seven-party coalition.

The size of the package and Mr Hosokawa's suspension of the sales tax bodes well for his meeting with President Bill Clinton on Friday to discuss trade relations. US officials had opposed an early increase in indirect taxes, for fear it would depress consumer demand and hamper efforts to curb Japan's record current account surplus.

However, Mr Hosokawa has had to scale back his plan, announced last week, for a Y6,000bn annual income tax reduction, to win support from the fiscal conservatives in his coalition. They follow the finance ministry's line that tax cuts should be funded by indirect tax increases.

Instead, the government will make a one-off Y5,850bn income tax cut - to be paid as an across-the-board 20 per cent tax rebate to all income tax payers - while it attempts to agree permanent tax changes by the end of the year that Mr Hosokawa wanted. The rebate, to be paid in June and October this year, is worth Y106,000 to the average family of four, on a Y7m annual salary, the finance ministry estimated.

Hosokawa finds a lot to be sorry about;
Main aim is to increase consumption ....Page 4

The tax cut, the largest in post-war years, will be funded by the issue of deficit bonds, requiring special legislation. The powerful finance ministry has fought hard against deficit financing, but compromised on the understanding that the government will secure an agreement this year to increase indirect taxes. This is seen as essential to compensate for the loss of income tax revenue already expected as Japan's population of retired people rises sharply in the next few decades.

The spending side of the package will be funded from a mixture of existing revenue and construction bonds, which the government issues to finance public spending on the infrastructure, and from postal savings.

Business groups and economists welcomed the package yesterday. Private sector forecasters predicted that it would boost gross national product from around zero to around 1.3 per cent this year, while the government's economic planning agency said it would add as much as 2.2 per cent to growth.

Yesterday's pump-priming package is the fourth announced by the government since August 1992. Most of the Y30,200 announced in the last three stimulus packages has already been spent.

This latest plan includes Y7,200bn of public spending on infrastructure, and loans for house buyers, small businesses and job creation. The package also contains plans to help banks dispose of bad loans faster, to avert fears of a credit shortage.

Its main proposal on debts is to allow banks to set up a company to buy restructured loans made to so-called non-banks, like housing finance groups. This will supplement another body, the cooperative credit purchasing company, set up by banks last year to buy doubtful property backed loans. Japanese markets were little moved yesterday by the government announcement, with dealers suggesting the package was in line with expectations and had been largely discounted.

Markets recover in wake of US share price rally

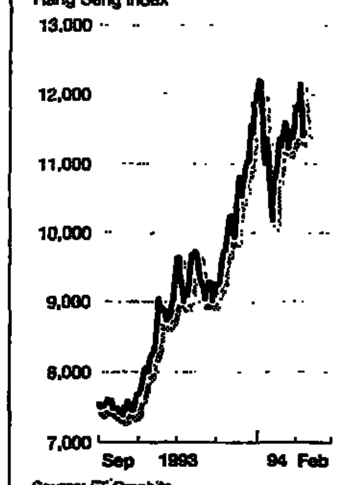
By Our Markets Staff

Equity markets around the world responded positively to Monday's Wall Street recovery, although the shock of Friday's 96-point drop in the Dow Jones Industrial Average left most of them unable to recoup all of their losses.

In Asia and the Pacific Basin, none of Monday's big losers came near to regaining its ground. Hong Kong's Hang Seng index added just 0.35 per cent after Monday's 6.1 per cent slide, and

Hong Kong

Hang Seng Index



Source: FT Graphite

London strength in HSBC Holdings, parent of the Hongkong Bank, owed more to the UK bank rate cut early in the day, and later to the innate volatility of the stock, than to the equity recovery in the home market.

Of the other big Asian losers, Thai equities rose 6 per cent after a 6.9 per cent drop on Monday, and their Malaysian counterparts by 1.3 per cent, after a 4.6 per cent decline the day before.

In Japan the Nikkei average, which lost only 1.4 per cent on Monday, recovered almost all of that ground with a 1.2 per cent improvement yesterday. Japanese equities then showed further strength in London dealings.

Continued on Page 16
World stocks, Section II

German jobless figure climbs above 4m level

Rexrodt warns high unemployment threatens 'foundations of our society'

By Judy Dempsey in Berlin

Unemployment in Germany climbed above 4m in January, with the eastern states bearing the brunt of the increase and western Germany recording its highest postwar jobless levels.

Mr Günter Rexrodt, the economics minister, said the figures, which compared with 3.69m unemployed in December, were dramatic.

According to the Federal Labour Office, the combined unadjusted unemployment total in east and west Germany was 4.03m, comprising 2.74m in the west and 1.29m in the former communist east. It cited seasonal factors and cuts in public spending on job creation schemes and short-time work for forcing more people on to the labour market.

Mr Rexrodt, speaking at an economics conference, said: "This unemployment figure is of a dimension which is not acceptable. It is not a surprise, but it is nonetheless dramatic.

"We must be aware that lasting high unemployment threatens not only our economic order but also the foundations of our society. We must devote all our efforts to averting this threat."

Chancellor Helmut Kohl, speaking at the same conference, said: "We are not dealing with a normal recession but with structural problems which have been building up for too long. We need to rethink."

The official east German unemployment rate is put at 17 per cent. But the figures for the eastern states are not seasonally adjusted, unlike those in west Germany.

Nor do official German figures include people on job creation schemes, short-time work, or in early retirement. The unofficial unemployment rate in the east is more than 35 per cent.

In west Germany, the unemployment rate, based on unadjusted figures, climbed last month to 8.8 per cent compared with 8.1 per cent in December and 7.3 per cent in January 1993. This brings the total unadjusted figure to 2.74m, a rise of 220,000 over the previous month, but a slight decrease compared with the rise in January last year when 230,000 more people were added to the register.

Seasonally adjusted unemployment in west Germany rose last month to 2.52m, a rise of 27,000 from the previous month, and a rise of 360,000 from January 1993. Economists said unemployment was expected to rise in coming months as short-time working and job creation schemes expired.

In west Germany, short-time employment fell to 517,374 last month compared with 556,192 in December. In east Germany, short-time employment fell to 115,900, compared with 125,449.

IG Metall agrees talks, Page 2

Chancellor Kohl (left) and Günter Rexrodt before the economics conference. Lasting high unemployment threatened the economic order and "the foundations of our society", Mr Rexrodt warned Reuter

Bank of England signals ¼-point cut in base rates

By Philip Coggan, Economics Correspondent, in London

The Bank of England signalled a surprise quarter of a percentage point cut in UK base rates to 5.25 per cent yesterday, as it published a generally positive report on the inflation outlook for the UK economy.

Although some analysts were taken aback by the timing of the cut, Mr Kenneth Clarke, the chancellor of the exchequer, said that "inflation has been lower than expected. Looking ahead inflationary pressures appear subdued. I have concluded that interest rates can be reduced modestly without putting at risk the inflation target."

However, the quarter point cut, the smallest since 1985, will not be passed on to most home owners. Leading lenders said they would leave their mortgage rates, currently 7.64-7.74 per cent, unchanged. UK companies with loans linked to base rates should see some benefit. Mr Michael Portillo, chief secretary to the Treasury, said the change, if passed on in full, would be worth £250m a year to British business. Mr Richard Brown, deputy director general of the British Chambers of Commerce, said: "This step will help to settle confidence and is a move in the right direction."

Shares and government bonds – gilts – initially responded positively to the news. The FT-SE 100 index rose 52.6 points to 3,440.2 by mid-morning, almost eliminating Monday's losses, while long gilt prices rose by a point. The market fell back as traders felt the government was using up its rate-cutting ammunition too quickly. The FT-SE 100 closed only 21.1 points higher at 3,440.2 and long gilts ended slightly down on the day.

Sterling was hit by the change, falling 1¼ pfennigs in London from DM2.61 to DM2.595 and dropping a cent against the US dollar to close at $1.47.

The decision to cut rates was taken at the monthly monetary meeting on February 2 between the Bank governor, Mr Eddie George, and Mr Clarke. The timing was left to the Bank of England, which decided the change should coincide with the quarterly inflation report.

The planned April tax increases played a part in the rate cut decision. The main factor, however, was the subdued inflationary outlook.

The Bank said its core measure of inflation, known as RPIY, which excludes the effect of mortgage rates and indirect and local authority taxes, had fallen to 2.3 per cent in December. The Bank projects that RPIY will stay low – just above 2 per cent – for the next two years, although headline inflation will rise over the next few months.

Lex, Page 16; Editorial Comment, Page 15; Into uncharted territory, Page 15; Government bonds, Page 22; Currencies, Page 36; London stocks, Page 29

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 LONDON · PARIS · FRANKFURT · NEW YORK · TOKYO

IG Metall sets deadline

Talks agreed over German strike threat

By Quentin Peel in Frankfurt

IG Metall, the 3.25m-strong German engineering workers' union, yesterday backed away from instant confrontation in its annual wage negotiations, accepting an invitation from the employers to talks on Friday.

However, Mr Klaus Zwickel, its leader, set a one-week deadline for new proposals from Gesamtmetall, the employers' federation, before the union begins the process leading to a ballot on full strike action.

He warned that both sides remained far apart in their regional negotiations across the country in which the union is seeking firm job guarantees in exchange for radical cost cuts sought by the employers.

"IG Metall will not bow to any diktat from the employers," the union leadership said in a statement. "We do not want a conflict, but we are not going to avoid it at any price." The union will decide on February 21 whether to hold a strike ballot, the essential preliminary to an all-out strike.

Mr Zwickel's acceptance of the invitation to meet Mr Hans-Joachim Gottschol, Gesamtmetall's president, was welcomed by the employers as a "last chance" to reach a solution. "We know this is the last stage before open conflict," Mr Werner Rieck, the Gesamtmetall spokesman, said last night. "Both sides must sound out their final compromises."

The union leader gave some indication of a readiness to compromise, but within clear limits. He is now merely calling for "nominal" pay rises, implying that an increase below the forecast 3 per cent inflation rate would be acceptable, rather than the 5.5-6 per cent in the formal pay demand.

As far as any changes in working hours are concerned, the union is not prepared to see any open-ended deal to increase the present 36-hour week, as the employers want, but is happy to negotiate a cut in working time.

The industry is due to move to a 35-hour week from October, 1995, and Mr Zwickel wants that date brought forward by 18 months, as a measure to stem the rise in unemployment.

He also wants a temporary two-year deal allowing individual companies to cut working hours to as little as 30 per week, without full compensation of earnings, in order to reduce their excess capacity during the current recession. In exchange, the union wants plant-level guarantees of no redundancy.

Mr Zwickel also suggested a marginal flexibility in terms of longer working hours: instead of averaging a 36-hour week over six months, with individual working weeks of up to 40 hours, the union is ready to see the period extended to 12 months.

The employers say that is merely a change in the organisation of working hours and not in the absolute volume, as they want.

"Our common goal is to save jobs," Mr Rieck said. "It is not possible to do that without cost cuts. There must be flexibility in working hours upwards as well as downwards."

IG Metall fears that the employers are using their arguments for flexibility as a way of undermining the entire concept of a national wage agreement, leading to plant-level bargaining.

Doubts persist on Bosnia air strikes

Robert Mauthner, Diplomatic Editor, on growing pressure for action in the republic

The massacre of 68 shoppers in a Sarajevo market last weekend has concentrated world attention as never before on the need for effective action in Bosnia.

Even those, like Britain, who have always had deep reservations about the usefulness of military intervention, are talking about more "muscular" action. And even that paragon of caution, Mr Douglas Hurd, UK foreign secretary, has said that the Sarajevo atrocity "brings us near a decision, in one way or another, to use force".

Yet for all the huffing and puffing and the widespread feeling that "enough is enough", a big question-mark hangs over the use of air power – the only type of military action any of the western powers is prepared to contemplate. The statement issued by the European Union's foreign ministers at their meeting in Brussels on Monday that Nato and the United Nations should try to lift the siege of Sarajevo "using all means necessary, including the use of air power", certainly marks a political change of direction.

Only last spring the Europeans rejected a US proposal which included the use of air strikes against Bosnian Serb artillery positions, as well as the selective lifting of the arms embargo against the Bosnian Moslems.

In practice, however, a decision to go ahead with air strikes now lies in the hands of Nato, which has been asked by Mr Boutros Boutros Ghali, UN secretary-general, to authorise such bombing raids, if these are considered feasible and once the responsibility for the Sarajevo massacre is deemed to have been clearly established.

The advice of senior Nato and UN commanders will be crucial in any final decision to launch air strikes and it is no secret that most military experts are extremely sceptical about their effectiveness in Bosnia's wooded and mountainous terrain.

After a two-hour meeting of President Bill Clinton's senior national security advisers on Monday, Mr William Perry, defence secretary, indicated that he and General John Shalikashvili, chairman of the joint chiefs of staff, had expressed their doubts about such a course of action. "We take very seriously the limitations of air strikes against, first of all, artillery type targets, and secondly, any targets that are embedded in a civilian population."

Bosnian Serb artillery and tank positions, when they are not concealed in forest, are reported to be highly mobile and easily relocated when under attack. If they were deployed in populated areas, air strikes would risk killing innocent civilians. Moreover, Serb and Moslem positions are frequently so close to each other that bombing raids could kill combatants from both sides.

Quite apart from the military limitations of air strikes – recognised by Mr Warren Christopher, US secretary of state, when he said a whole range of other options were also being considered – there are many political and, ultimately humanitarian drawbacks.

The launching of air strikes against the Bosnian Serbs, by triggering retaliation against inadequate UN forces, could bring to an end the whole UN peacekeeping operation in Bosnia and greatly jeopardise, if not halt altogether, the delivery of international aid.

Equally serious, air strikes, while satisfying the growing desire of western public opinion and governments for punitive action, are unlikely to bring a political solution any nearer. That is why Britain, as well as the US, continue to insist that they be linked to clear objectives that would end the conflict.

Both France and Britain have been doing their utmost, so far with little success, to persuade the US to become more closely involved in the peace negotiations. The US, which was responsible for sinking the original Vance-Owen plan for the division of Bosnia-Hercegovina into 10 semi-autonomous provinces, has been equally unenthusiastic about the international mediators' subsequent project.

This would carve the country up into three ethnic mini-states – Serb, Moslem and Croat – but has proved unacceptable to the Moslems, who argue that the territory allocated to them does not amount to a viable country. Washington has all along refused to support a solution which is not approved by the Moslems, thus making sure that the stalemate at the Geneva peace conference, which has been further exacerbated by Croat-Moslem fighting and territorial disputes, will not be broken.

One possible way out of that stalemate is agreement by the three warring parties to the mediators' proposal that, as a first step, a separate agreement should be reached on Sarajevo, which would demilitarise the city and place it under UN administration. Such a partial solution, which would cover an area of some 1,500 sq km around Sarajevo, would relieve the siege of the city by putting it out of range of Serb guns.

Lord Owen, the EU's representative, has indicated that Mr Radovan Karadzic, the Bosnian Serb leader, would be willing to negotiate such an agreement, though the latter is notorious for failing to keep his word. A rapid separate agreement on Sarajevo, on which talks are due to be held in Geneva tomorrow, could be the best way of avoiding a military escalation in Bosnia, with unforeseeable consequences. It could also be the first step towards an overall peace settlement, which remains the only way to end the conflict.

Boutros Ghali calls on Nato to step in

Following is the text of Mr Boutros Boutros Ghali's letter sent to Mr Manfred Wörner, Nato secretary-general, on Sunday and to members of the UN Security Council:

I have the honour to refer to resolution 836 adopted by the United Nations Security Council on 4 June 1993.

In paragraph 9 of that resolution the Security Council authorised the United Nations protection force (Unprofor), in carrying out the mandate conferred on it by paragraph 5 of that resolution ". . . . acting in self-defence, to take the necessary measures, including the use of force, in reply to bombardments against the safe areas by any of the parties. . . . " The safe areas had been declared by the Security Council in its resolution 824 of 6 May 1993. They included Sarajevo.

In paragraph 10 of resolution 836, the Security Council further decided that ". . . . member states, acting nationally or through regional organisations or arrangements, may take, under the authority of the Security Council and subject to close co-ordination with the secretary-general and Unprofor, all necessary measures, through the use of air power, in and around the safe areas in Bosnia-Hercegovina, to support Unprofor in the performance of its mandate set out in paragraphs 5 and 9 above."

In the declaration of the heads of state and government participating in the meeting of the North Atlantic Council held at Nato headquarters, Brussels, on 10-11 January 1994, the heads of state and government inter alia reaffirmed their "readiness under the authority of the United Nations Security Council and in accordance with the alliance decisions of 2 and 9 August 1993, to carry out air strikes in order to prevent the strangulation of Sarajevo, the safe areas and other threatened areas in Bosnia-Hercegovina."

You subsequently informed me that, whereas the North Atlantic Council had already authorised close air support, a further decision would be required for it to authorise air strikes. I supported this position to the Security Council in my letter of 28 January 1994 addressed to its president.

The mortar attacks last week against civilian targets in Sarajevo, at least one of which has been established by Unprofor to be the work of Bosnian Serb forces, make it necessary to prepare urgently for the use of air strikes to deter further such attacks.

I should be grateful, therefore, if you could take action to obtain, at the earliest possible date, a decision by the North Atlantic Council to authorise the commander-in-chief of Nato's southern command to launch air strikes, at the request of the United Nations, against artillery or mortar positions in or around Sarajevo which are determined by Unprofor to be responsible for attacks against civilian targets in that city.

The arrangements for the co-ordination of such air strikes would be elaborated through direct contacts between Unprofor headquarters and Nato's southern command, as has already been done in the case of close air support for the self-defence of United Nations personnel in Bosnia and Hercegovina.

I am today informing the members of the Security Council that I have addressed the above request to you.

Finland attacks EU demand on farm prices

By Lionel Barber in Brussels

Finland sharply criticised the European Union yesterday for demanding an immediate realignment of its farm producer prices as the entry ticket to the EU.

A Finnish statement issued in Brussels said the demand would require the country's farmers to halve prices to match EU levels, upsetting markets and putting at risk a Yes vote in a referendum on EU membership.

The remarks jolted optimism at the end of a two-day meeting of EU foreign ministers in Brussels. The meeting agreed on an EU negotiating position on regional aid, Nordic agriculture, and special assistance for farmers in Sweden, Finland, Austria and Norway.

Diplomats said the EU's common position, though ambiguous, kept hopes alive of agreement with applicant countries by the March 1 target date. "It keeps the momentum going," said an EU official. "Now we are ready for the endgame."

Apart from the matter of how much each applicant pays into the EU budget, the farm and regional aid issues are the trickiest in the accession talks. Norway, however, faces a special problem in the fish negotiations and could easily miss the March 1 deadline.

Finland's intervention was seen in some quarters as a tactical diversion aimed at impressing its domestic audience. But Helsinki was also caught flat-footed by the European Commission's insistence on a "big bang" price alignment supported by national aid, rather than a slow transition favoured by the Brussels agriculture directorate.

It also expressed concern about a ministerial position on Nordic agriculture which stated that the EU would consider "national long-term aids" for regions with low temperatures and short growing seasons. The ministers stressed, however, that this assistance should not be linked to production or distort competition.

In the talks, Spain and Portugal blocked an offer of the most generous form of regional aid – known as Objective One – to the applicant countries. Their fear is that this could lead to competing claims to the biggest pot in the structural fund budget.

Instead, ministers agreed on the principle of "analogous treatment", leaving the number of areas to be negotiated over the next three weeks. The compromise provoked criticism from Sweden which pressed for special treatment of its northern provinces called Norbotten.

Austria also dug in on its demand for special arrangements covering Alpine transit traffic. It wants a nine-year exemption from the Common Transport Policy so as to protect against traffic pollution; but Brussels is offering only a three-year transition until 1998.

Illarionov warns 'old guard' now in power has Yeltsin in its sights

Key Chernomyrdin adviser quits

By Leyla Boulton in Moscow

One of the last remaining radical reformers in the Russian government quit yesterday, warning that President Boris Yeltsin was next on the wanted list for the "old guard" of bureaucrats and industrial lobbyists now in power.

Mr Andrei Illarionov said he had resigned as chief economist to Mr Victor Chernomyrdin, prime minister, because he had "joined the government to conduct economic reforms, not to bury them".

He said that since President Yeltsin launched radical reforms in January 1992 Russia had been in the throes of "a hidden civil war" and that the old guard, resentful of its loss of power, "did everything" to squeeze out reformers like Mr Boris Fyodorov, the former finance minister.

"1994 is the year during which they will try to overthrow Yeltsin," he said.

However, Mr Illarionov reserved his sharpest criticism for Mr Victor Gerashchenko, central bank chairman, whom he accused of a long list of "crimes" – top of which was last summer's highly unpopular monetary reform – designed to discredit and eventually overthrow Mr Yeltsin. He said Mr Chernomyrdin had saved Mr Gerashchenko "four times" in the past six months.

The new government, he claimed, wanted to pursue "a different vision of the future of Russia", which basically involved restoring a Soviet-style military and industrial power with "some changes".

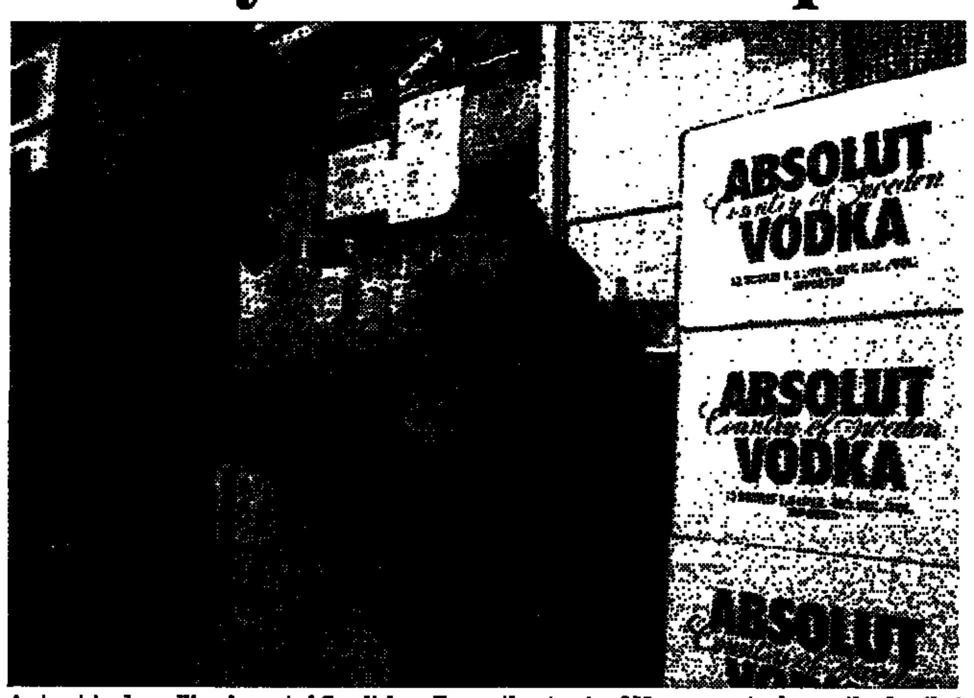
Meanwhile, Mr Fyodorov, yesterday elected head of parliament's sub-committee on central banking reform, vowed to investigate "an excessive number of unanswered questions" about the central bank's activity under Mr Gerashchenko's stewardship.

Mr Illarionov's decision to quit virtually completes a wholesale shift of radical reformers into opposition to the government. The exception is Mr Anatoly Chubais, deputy prime minister for privatisation, who has stayed on to complete his mass privatisation programme.

Tomorrow, the Russian parliament, which is also dominated by critics of radical reforms, is due to discuss two new programmes that have been put forward as alternatives to the government's existing blueprint, but which offer little by way of new policies.

These programmes lend credence to Mr Illarionov's charge that the the government "has knelt to the blackmail of sectoral and regional lobbyists", a claim which a group of veteran economists also made earlier this week.

"The lobbying will be stronger than ever before," said Prof Stanislav Shatalin, author of the ill-fated 500-day programme. Dr Leonid Abalkin, former deputy prime minister under President Mikhail Gorbachev, said: "This government will opt for the worst of all options, cobbling together bits of different programmes so that reforms don't happen at all."



A street trader selling imported Swedish vodka on the streets of Moscow yesterday on the day that Russia's biggest vodka distillery closed and temporarily laid off 700 workers. Moscow's Kristall plant, manufacturer of the popular Stolichnaya brand, blamed its plight on growing foreign competition, increased duties and domestic underground distilleries turning out forgeries Reuter

Court blocks lay-offs by Fiat

By Robert Graham in Rome

Fiat's hopes of being able to push through a 5 per cent reduction in its automotive workforce and lay off a further 10 per cent for two years have received a setback from the courts.

A Milan court has ruled invalid a decision by Fiat to lay off for two years some 2,000 workers and 239 white collar staff at the Arese plant of Alfa Romeo near Milan. As a result, Fiat will be obliged to bring these people back onto the full payroll..

Unless Fiat can find a way round the ruling it could undermine the Turin-based auto group's plans to cut labour costs and return car-making operations to profit.

The ruling followed legal action by the most militant trade union grouping, Cobas, challenging the move which was put into effect three weeks ago. Arese employed 9,000 people before the restructuring plan began to be implemented and faces closure by 1996. The plant accounts for a quarter of the Fiat group's total planned lay-offs and job cuts.

The court upheld Cobas's claim that the lay-offs broke an agreement between management and unions made last June. This accepted the principle that future lay-offs would not be for indeterminate periods and that laid-off workers would be able to alternate with periods of work.

NEWS IN BRIEF

Baltics trade pact given EU go-ahead

The European Commission can start negotiations on a free trade agreement with the Baltic states, EU foreign ministers agreed yesterday, writes Lionel Barber from Brussels.

Sir Leon Brittan, EU chief trade negotiator, said he wanted to move quickly to an association agreement similar to the ones agreed with Poland, the Czech Republic and Hungary.

Oslo protest to EU over fish

Norway yesterday lodged a formal protest with the European Union over last week's implementation of minimum prices on fish from non-EU countries and said talks on the move were planned for Friday, writes Karen Fossli from Oslo.

It also expressed disapproval to Paris and Brussels over "an effective blockade" in France of fish from third countries through rigid customs and veterinary practices.

Clarke rejects Delors policy

Mr Kenneth Clarke, UK chancellor of the exchequer, yesterday reiterated his opposition to key aspects of the Delors plan for jobs and growth, writes Philip Coggan.

Speaking in Paris, he said the right approach to tackling unemployment was "flexible, efficient labour markets".

Greek inflation at 20-year low

Greece's year-on-year inflation rate fell to its lowest level in nearly 20 years, at 11.1 per cent, according to the statistical service, writes Kerin Hope from Athens. The January rate was down sharply from 14.5 per cent in the same month in 1993, reflecting the effects of continuing recession.

Two sign deals with Nato

Hungary and Ukraine yesterday signed military partnership deals with Nato, joining a queue of east European nations which see the agreement as a prelude to full membership of the alliance, Reuter reports from Brussels. Meanwhile, Germany has signed an agreement with Slovakia on military training and officer exchanges.

Bulgarian land reform progress

Bulgaria has returned 47.7 per cent of the land confiscated under communism to its original owners and hopes to transfer the rest by the end of this year, the agriculture ministry said, Reuter reports from Sofia.

Implementation of land reform, passed in 1991 to end Soviet-style collective farms forcibly set up in the 1950s, was being mostly slowed down by excessive claims, it said.

Russian TV gets blackout threat

Trade unions yesterday threatened to starve millions of Russians of news and entertainment, cutting off most television programmes unless broadcast companies pay their bills, Reuter reports from Moscow. Television and radio companies owe money to technical and transmission installations which belong to the communications ministry.

Scandal set to take the politics out of Italian banks

Robert Graham and **Haig Simonian** on new corruption inquiries

Within a week the heads of two of Italy's most important banks, the Treasury-owned Banca Nazionale del Lavoro and Milan-based Cariplo, have been obliged to offer their temporary resignations because of judicial inquiries into alleged corruption.

The resignations are in line with Bank of Italy rules introduced last August, when bankers first came under the judicial spotlight.

Whatever the outcome of these investigations, the impact on the future of Italian banking will be profound.

Mr Roberto Mazzotta, a Christian Democrat appointee, stood down last Friday from the chairmanship of Cariplo and since Monday has been in a Milan jail on charges of corruption. He is due to be questioned today about alleged phoney property deals conducted by Cariplo's pension fund to benefit the Christian Democrat and Socialist parties. Four other Cariplo executives have been issued with arrest warrants.

At BNL, Mr Giampiero Cantoni, the chairman, announced on Monday he was stepping down after news that he was being investigated for alleged payments to local Socialist politicians to facilitate property development in a Milan suburb. Mr Cantoni, a Socialist appointee, was brought in to clean up BNL in 1989 after the scandal of $4bn (£2.6bn) in unauthorised loans made to Iraq by its Atlanta branch.

A separate, routine Bank of Italy inspection is understood to have raised questions about BNL's lending to Mandelli, a high-tech engineering group recently placed in liquidation. With more than L100bn (£39m) of loans outstanding, BNL is the group's largest creditor.

Both Cariplo and BNL have insisted the functioning of their institutions is not affected. However, 14 executives who either hold or have held high office in 11 large banks and savings banks are under investigation on corruption charges throughout Italy.

These events will accelerate the process of change brought about by a combination of the collapse of the post-war political system and privatisation. Until now the state has controlled two-thirds of Italy's banking and financial institutions. The latter were simply divided into spheres of influence by the main parties, leaving managements with the often impossible task of fending off political interference.

The opportunity for abuse was ample since there was insufficient accountability. The Bank of Italy had only limited powers – for instance Mr Mazzotta was appointed by the Christian Democrat-led government against the central bank's objections. BNL was regarded as a "Socialist preserve".

Now the old political masters are fast vanishing, and privatisation further limits the scope for interference. Management will be answerable to shareholders – including foreign institutional investors – instead of the politicians.

The question is whether the latest arrests, and the possibility of other embarrassing revelations as the judicial spotlight is increasingly turned on the banks, will upset the gradual modernisation and improvement of standards in the antiquated banking sector.

In the medium term, the stigma of corruption investigations into Italian banking, once wrongly thought to be free of political influence thanks to close Bank of Italy supervision, will be an obstacle to privatisation. Many big municipal savings banks are being transformed into joint stock companies – the first step towards a possible flotation. Investors may think twice about buying shares if they fear skeletons in the cupboard.

Further ahead, however, the latest wave of investigations and arrests will accelerate calls for fresh blood in the banks. The two-year-old political corruption scandal has already put a virtual end to the time-honoured practice of *lottizzazione*, whereby political parties inserted their people into key public-sector posts.

Revelations of corruption in bank boardrooms would speed up the move toward greater transparency and accountability, instigated by privatisation. Already, Credito Italiano, the first big bank on the privatisation list, which was sold off last December, has altered its articles of association to allow outsiders into its top management ranks. Others are bound to follow.

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President pushes insurance reform plans

Clinton fights back over healthcare

By George Graham in Washington

President Bill Clinton is locked in a battle with business groups and political opponents over one of the central elements of his healthcare plan – the requirement that all businesses offer health insurance to their workers and pay for most of its cost.

Counterpunching after a week in which the Business Roundtable, the US Chamber of Commerce and the National Association of Manufacturers all denounced his reform plan, Mr Clinton yesterday took his message to workers at the US's biggest business, with a speech at a General Motors truck plant in Shreveport, Louisiana.

"General Motors and people like you are paying too much for your healthcare because people all over the country aren't paying anything at all," Mr Clinton said to repeated cheers from an audience that receives one of the best healthcare packages in the country.

Big companies such as GM are generally expected to benefit from the Clinton plan, since they already pay for health insurance for their employees and would not face any extra burden. In addition, the proposals would relieve GM and other businesses of a big part of the cost of health coverage for their retired workers.

But opponents who claim that the obligation would amount to a heavy tax on business were expected to receive a boost yesterday from the Congressional Budget Office, which was due to release its review of the financial underpinnings of the Clinton plan.

The CBO was expected to say it believed the insurance premiums employers would be required to pay should be included in the overall federal budget as receipts, but to stop short of calling them a tax.

Congressional budget experts said the CBO announcement would be "strictly symbolic" and would have no concrete consequences on the budget. Nevertheless, it would help opponents of the plan to paint it as a government takeover.

Mr Clinton hotly rejected this claim yesterday, counter-attacking against the insurance companies which have been the staunchest opponents of his proposals.

The Clinton budget published on Monday shows that his health reform would cost the government itself \$338bn (£225bn) over the six years from 1995 to 2000, including \$110bn to subsidise premiums paid by small business, \$69bn to pay for prescription drug coverage in Medicare, the government programme that provides health insurance for the elderly, and \$62bn to cover long-term nursing care.

This would be paid for by \$179bn of savings on Medicare and Medicaid, its counterpart for low-income households, by \$92bn from a 74c-a-pack increase in the cigarette tax, and by \$122bn of other revenues.

The White House's Office of Management and Budget calculates that even allowing for a \$41bn cushion, the plan would reduce the budget deficit by \$59bn over the six years.

Productivity in manufacturing up 5.3% in 1993

By Michael Prowse in Washington

US manufacturing productivity grew at an annual rate of 7.8 per cent in the fourth quarter and by 5.3 per cent during 1993 as whole, the Labour Department reported yesterday.

The rapid growth of productivity – output produced per hour – helps explain the accelerating pace of economic recovery in the fourth quarter, when gross domestic product grew at an annual rate of 5.9 per cent.

In sectors other than manufacturing, productivity growth was less rapid, but still impressive. For all non-farm businesses, productivity grew at an annual rate of 4.2 per cent in the fourth quarter and by 1.6 per cent during 1993 as a whole.

Last year marked the second year of unusually strong US productivity growth. Manufacturing and non-farm business productivity grew by 4.3 per cent and 3.1 per cent respectively in 1992.

The productivity gains are helping put downward pressure on inflation. In non-farm businesses, unit labour costs rose 1.9 per cent last year, against 2.0 per cent in 1992, a sharp deceleration from previous years.

In manufacturing, unit labour costs declined by 2.4 per cent last year after a 0.1 per cent gain in 1992.

Productivity growth is typically robust in the early stages of an economic recovery. But many economists believe the exceptionally strong gains of the past two years also reflect structural changes: extensive corporate restructuring in response to more intense foreign competition in an increasingly integrated global economy.

During much of the 1980s, non-farm business productivity grew at an annual rate of 1 per cent or less.

Talbott sees need for strong Israel

By Jurek Martin in Washington

Mr Strobe Talbott, nominated to be deputy secretary of state, yesterday told Congress that his belief in a close US-Israeli relationship was "unshakeable", as was his conviction that a strong Israel was in the best US national interest.

His comments, added to his formal testimony to the Senate foreign relations committee, were designed to address recent criticism that he might harbour reservations about the extent of the US commitment to Israel.

Speaking with care, Mr Talbott added that he fully supported all the policies of an administration which had achieved much in facilitating the Middle East peace process.

Although Democratic senators on the committee gave him a warm welcome, Senator Jesse Helms, the Republican from North Carolina and long-time scourge of the State Department, said he had "profound concerns" about Mr Talbott's qualifications for the job. "We don't need another policy wonk sitting in an ivory tower," he tartly observed.

Specifically Mr Helms questioned Mr Talbott's recent record as ambassador-at-large dealing with former Soviet republics. He quoted recent remarks by Mr Malcolm Rifkind, UK defence secretary, who speculated that the disintegration of the Soviet empire might be reversible, and Mr Boris Fyodorov, the former Russian finance minister, who had accused Mr Talbott's "rosy optimism" of undermining Russian reformers.

In his prepared remarks, Mr Talbott conceded that the US engagement with the former Soviet states had been "exhilarating but vexing". But he said the US could not remain a spectator, its involvement had "already made a difference," and it was important to "take the long view."

He predicted that Nato would evolve towards "maximum inclusiveness" should Russia remain unthreatening, but that its membership and security guarantees could be expanded faster to meet any new menace.

Canadian tobacco taxes cut sharply

By Bernard Simon in Toronto

Canada yesterday sharply cut tobacco taxes in the hope of curbing the growth in cigarette smuggling across its border with the US.

But the government balanced excise tax cuts with measures to avert a backlash from anti-smoking groups, including a new "health-promotion" surtax on cigarette makers' profits and a promise of tighter curbs on the sale and promotion of tobacco products.

The cross-border smuggling boom has its origins in high excise taxes, which have pushed retail cigarette prices up to about C\$45 (£23) a carton in Canada, almost double the US level. The problem is most acute in Quebec, where contraband products now account for an estimated two-thirds of total cigarette consumption.

Social and political concerns have put pressure on the government to clamp down. Much of the traffic has fallen into the hands of organised crime. Tensions have grown between law-enforcement authorities and Indian reserves, which straddle the border and are a favourite route for contraband.

In addition, Quebec separatists have sought to portray the smuggling issue as an example of the francophone province's interests being ignored by the rest of the country.

The measures announced yesterday include a C\$5 tax cut per carton of cigarettes, bringing federal taxes down to C\$11 a carton. Provinces willing to cut their taxes by more than C\$5 will have the cuts matched by the federal government.

The three-year surtax on tobacco companies is expected to raise about C\$200m. Ottawa will levy an export tax of C\$8 per carton to reflect the fact that most of the smuggled cigarettes originate in Canada.

Chiapas's gentle military strategist

Damian Fraser profiles the self-styled guerrilla 'sub-comandante' who has transfixed Mexico

A month after the guerrilla uprising in the southern state of Chiapas, Mexico is transfixed by the figure of "sub-comandante" Marcos, as he calls himself, the spokesman and chief strategist of the self-styled Zapatista rebels.

The sub-comandante formally reports to six Indian leaders who are the supreme authorities of the Zapatista army. But they themselves describe Marcos as the Zapatista military strategist, and have appointed him as interpreter to the outside, non-Indian world.

He has only been seen in public wearing a black balaclava that reveals nothing more than pale skin, a large nose and chestnut brown-green eyes. He seems to have a moustache and beard, and to be in his 30s. Other than that, his identity is hidden from the public.

But since peasant guerrillas first seized several towns in the impoverished state, Marcos has gripped the country with a series of ironic, sometimes poetic and always compelling communiqués that have arrived at Mexico's main independent newspapers from his base deep in the Chiapas jungle.

When President Carlos Salinas decided to offer the guerrillas amnesty for taking up arms, Mr Marcos asked whether they should be pardoned for dying of hunger, for not staying silent in their misery, for not accepting a gigantic history of contempt and abandonment, for dying of dysentery, cholera and typhoid, in a string of more than 150 rhetorical questions.

"Who should ask for a pardon and who should give it?" he asks in the letter, which along with others has turned Marcos into a cult hero for much of the country's urban middle class.

On Monday, Multivision, a subscriber-only television station, broadcast the first full-length television interview with Marcos. He was soft spoken, humorous and self-deprecating, even admitting to errors in the uprising on New Year's Day.

He said the lack of land and Mr Salinas's decision to end land reform was the detonator of the rebellion. He described a movement made up almost entirely of Indians from Chiapas, who received no help from the church, foreigners or other social groups.

In the clearest terms yet, he described the Zapatista battle as political rather than military, as one of mobilising public opinion against what the rebels see as the government's iniquitous economic programme and the country's authoritarian political system.

Asked why the Zapatista uprising did not spread, Marcos replied: "We did not expect that, we did not expect that the people of Mexico would say 'Oh look, here are the Zapatistas, now it is our turn' and pick up their kitchen knives and attack the first policeman that they found. We thought the people would say what they have said – something is wrong in this country, something has to change."

Despite the brutal nature of the uprising, in which policemen were killed by rebels in cold blood, Marcos has been proved right. The uprising has unleashed a wave of criticism of government policy and forced it to accept on paper a broad political reform. According to an opinion poll in Este Pais, an independent magazine, 61 per cent of Mexicans sympathise with the Zapatistas.

The sympathy for the sub-comandante in part stems from disillusionment with existing political leaders. While Marcos has been able to engage the public in a dialogue, the speeches of Mexican politicians are generally tedious and earnest.

In spite of his balaclava and guerrilla outfit, Marcos sounds remarkably moderate and avoids leftist dogma. He thus almost immediately dropped the original guerrilla demands for the resignation of the government and replaced them with calls for democracy and justice, especially for the country's indigenous peoples.

"Marcos is articulating very elegantly the aspiration of many Mexicans," says Mr Sergio Aguayo, a political scientist at the Colegio de Mexico. "His success is a testimony to the poor state of the political parties."

Marcos has instead painted the government as the extremists, especially when the army was accused of human rights abuses in the first part of the conflict. "We will not take the country a hostage. We do not want to, nor can we, impose on Mexican society our idea through force of arms, as the current government imposes its project for the country through force of arms," he wrote in one of his earlier communiqués.

Marcos: masked middle-class cult hero AP

Marcos is fond of evoking the heroes of Mexico's 1910 revolution, and much of his support may be linked with the public's romantic view of that period in Mexican history. Ironically, Emiliano Zapata, the revolutionary peasant leader after whom the rebel army is named, is one of the heroes of Mr Salinas, and his picture hangs on the wall in his office.

"The cultural values of Mexicans accept violence as a way to arrive at power," says Mr Federico Reyes Heroles, the editor of Este Pais.

The government, which has used revolutionary ideology to give it a legitimacy that elections have not, is now finding that out to its cost.

Hosokawa finds a lot to be sorry about

William Dawkins on Japan's political realities

The chaotic events of the past six days have exposed the precarious tenure of Prime Minister Hosokawa and the strength of the finance ministry.

Mr Morihiro Hosokawa, scion of a famous Samurai clan, was yesterday reduced to apologising – at least six times during his half-hour press conference – for the abruptness with which he last week announced a Y6,000bn a year tax cut and the introduction of a 7 per cent "welfare" tax.

An exhausted looking Mr Hosokawa bowed yesterday, physically as well as symbolically, to the wishes of the Social Democratic party, the largest member of his seven-party coalition, which had threatened to leave the government over the welfare tax.

Mr Hosokawa's decision to freeze the proposed new levy, which was to have replaced the present 3 per cent consumption tax, means the shaky loyalty of the Socialists has been assured – for a while. The income tax cut, meanwhile, is to be authorised for just one year, pending discussions on how to finance it, representing only a small concession from the finance ministry's fiscal conservatives.

Mr Hosokawa's original tax plan, prepared by leaders of the centre-right Japan Renewal party and Clean Government party with the finance ministry's advice, was rapidly withdrawn after other coalition members, including Mr Hosokawa's own Japan New party, were furious at not having been consulted.

"I apologise for giving the impression that the tax proposal was hastily put together or that it was done abruptly at a closed-door meeting," Mr Hosokawa said yesterday. Decision-making in Japan's first coalition government was bound to be prone to "a lot of trial and error". He promised to make sure decisions were made "more smoothly" and to consult coalition members in advance.

"Clearly, Mr Hosokawa is walking a tightrope," said Mr Peter Tasker chief strategist at Kleinwort Benson in Tokyo. "He is swaying in the wind, has wobbled and just about regained his balance. He doesn't look strong."

What is certain is that Mr Hosokawa's high-handed tactics have caused his popularity to waver, down to 52.5 per cent according to yesterday's Nihon Keizai Shimbun newspaper, a drop of 12.2 points from its previous survey in December.

The tax drama is a sharp reminder that for all the confrontations in Japanese politics since the coalition came to power six months ago, a traditional all-party consensus is still needed for some decisions.

The government wrongly thought it could ram through the tax changes in the same way it had opened the rice market and reformed the electoral system, argues one political commentator. However, the rice agreement was inevitable, because of international pressure for a trade agreement, while the public was unconcerned about the fine details of the compromise on political reform.

Mr Hosokawa again had to turn to the finance ministry to help prepare the final tax accord; a sign of the vacuum left by the collapse of the LDP's policy-making committees with its election defeat last July. The accord simply "rubber-stamped the finance ministry's views", scoffed Mr Yoshiro Mori, LDP secretary general.

Mr Hosokawa insisted yesterday that the ministry did not force its opinions on the government, contrary to several analysts' belief that the ministry is pursuing its own independent programme of fiscal conservatism, almost as if it were a political party. Finance minister Mr Hirohisa Fujii said his ministry's basic views were incorporated in the compromise since the possibility of raising the sales tax at a later date had not been excluded.

The ministry, supported by Mr Ichiro Ozawa's JRP, has long wanted a rise in consumption tax to increase the proportion of government funding derived from indirect taxation so as to compensate for the fall in income tax revenue from a fast ageing population.

Finance ministry officials concede they have been priming the public for economically sensible tax reform – and anecdotal evidence suggests that many ordinary Japanese believe consumption tax should rise. And of course those officials deny they have a hidden agenda.

Prime Minister Morihiro Hosokawa (left) has been forced to apologise extravagantly while Finance Minister Hirohisa Fujii finds his ministry's views incorporated in the package *Pictures: AP and Reuter*

Banks offered escape from bad loans

By Emiko Terazono

For more than two years, the weakness of Japan's banking system has depressed the stock market while persistent fears of a credit crunch have undermined business confidence.

The Finance Ministry and the banks have traditionally dealt with bad loans by slowly writing off their loans. But declining investor confidence and increasing criticism over the delay in write-offs have forced the inclusion in yesterday's package of measures allowing banks to shift deteriorating assets off balance sheets.

The ministry will allow banks to set up a company to buy restructured loans – loans on which the banks have agreed to waive interest rates in order to help financial restructuring – made to non-bank financial institutions, such as housing loan companies.

During the late 1980s, banks, brokers, and manufacturers tried to take advantage of low interest rates and booming stock and property markets by setting up finance companies, many of which now face financial problems due to reckless lending.

After selling off a restructured loan at a discounted price to the company, which the banks themselves will have to fund, a bank will write off the difference and the company will monitor the financial restructuring of the borrower.

Tokyo's financial community welcomed the government package yesterday although much of the buying had been done last week, when the government had initially hoped to announce the measures.

The Nikkei average of 225 leading shares, which fell 287.03 points on Monday, rebounded 236.83, or 1.2 per cent, to 20,251.23.

The bond market, recently depressed by fears of extra supply of government bonds to finance the income tax cut and economic package, gained ground. The yield on the No 157 10-year benchmark fell 2.5 basis points to 3.5 per cent as investors regarded the over-supply factor as already discounted in the yield.

The ministry also urges banks to accelerate the write off process or to make provisions against their bad and risky loans.

The Finance Ministry also wants the banks to step up the use of the Co-operative Credit Purchasing Company, set up last year to buy the property collateral of problem loans.

The guideline also recommends banks to increase their capital base through issuing preferred stock and subordinated loans. In order to add liquidity to the property market, the ministry will ease restrictions on property-related lending.

Cuts 'will make a considerable difference'

Double-income family can do with this boost

By Michiyo Nakamoto in Tokyo

Mrs Keiko Miyaguchi is happy with the compromise tax plan which she expects will be a significant boost to her spending plans this year.

"We have been penny-pinching these days because the outlook has been uncertain, so it will be nice to see a cut in those taxes which make up a large proportion of our tax burden," Mrs Miyaguchi says.

With two children in college, a mortgage and an active social life, the Miyaguchis, both in their early 50s, feel they can use a boost to their double income.

"I don't think I would save the money but use it to travel, buy a new car and other goods that we have refrained from purchasing," says Mrs Miyaguchi, who works as a filing clerk at a large firm of lawyers in central Tokyo.

"Besides, interest rates in Japan are so low it is hardly worth saving.

"My understanding is that we are in the income bracket that benefits most from the tax cut, so I think it will make a considerable difference to us," she says.

JAPANESE TAX CUTS

Fiscal year	Details	Size Y bn	Revenue source
1983	Raising basic deduction, deduction for spouse and deduction for dependant by Y10,000 each	150	Surplus in previous years
1987	Income classification simplified and special deduction for spouse introduced	1,500	Tax free savings abolished in principle
1988	Advance enforcement of income tax revision	1,300	Increase of tax revenue
1989	Radical revision of income tax	2,400	Introduction of consumption tax
1994	Radical tax cuts. Income and residential taxes	5,850	Deficit bonds (temporary)

Source: Daily Yomiuri newspaper

Her husband works for a large construction company and is among those who have been fortunate enough not to see their pay suffer significantly despite the recession.

But not all families are as fortunate as the Miyaguchis, who receive two pay packets each month and have already bought their own home, and will see their financial burden ease as the children graduate from college over the next few years.

The tax cut will have a minimal beneficial impact on lower-income families, according to studies conducted by several private think-tanks.

A family with income of Y5m (£30,978) a year, will have an extra Y40,000 a year to spend, according to an independent study.

That is enough for one member of the family to make a day trip from Tokyo to Kyoto, or for the family to buy a dozen or so extra beers a month.

Main aim is to increase consumption

By Emiko Terazono in Tokyo

The centrepiece of the Japanese government's package is a Y5,850bn (£35.29bn) tax cut in order to boost consumption funded by deficit covering government bonds.

This year, the government will implement a Y3,840bn cut in income tax, a Y1,630bn cut in residential tax, a Y70bn passenger sales tax cut (through a reduction in the rate from 4.5 per cent to 3 per cent), and a Y310bn cut in corporate taxes.

This is to be done by abolishing a special corporate tax, originally implemented to finance Japan's $9bn contribution to the Gulf War, at a rate of some 1 per cent of pre-tax profits.

In addition to the central tax cut of Y5,850bn, there is a further Y170bn reduction in inheritance taxes, making the total tax cut Y6,020bn.

Residential and income tax cuts will be reviewed at the end of the year, together with a scheduled reform of the whole tax system.

The fiscal spending portion of the package announced yesterday totals Y9,400bn.

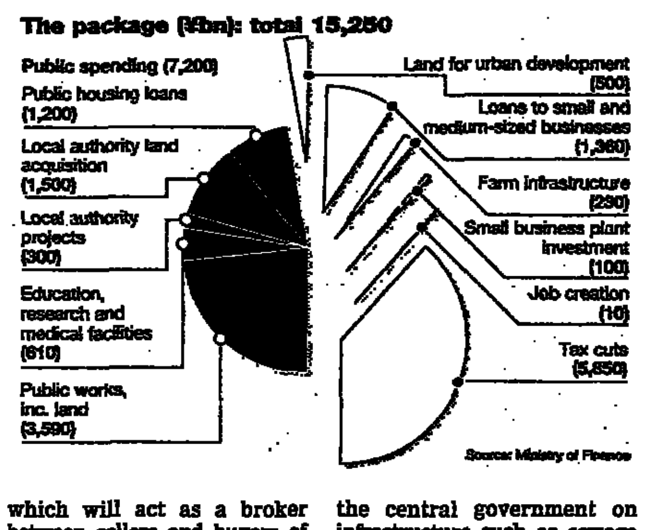
A third of this will be spent on measures increasing public and private buying of land to provide liquidity to the country's stagnant property market and assist corporations wanting to unload their property holdings.

The spending element includes a Y780bn in advance acquisition of land for public works, Y1,500bn in advance property purchases by local authorities, and Y500bn in supplying low interest rate loans to a land-buying organisation, which will act as a broker between sellers and buyers of land in the private sector.

Public works spending by the central government on infrastructure such as sewage systems and roads totals Y2,810bn, while Y610bn will be spent on improving educational and research and development facilities, and Y300bn on projects carried out by local governments.

To promote further purchases of houses, some Y1,200bn is allocated to low interest rate housing loans by the Housing Loan Corporation. Increases in low interest rate loans for small and medium businesses totals Y1,360bn, while Y230bn will be spent on agricultural infrastructure ahead of the opening of the country's rice market.

Tax incentives to promote investments in plants and equipment will total Y100bn, while Y10bn will be spent on employment subsidy schemes to help middle-aged workers facing an increasing threat of unemployment due to labour rationalisation.



Retailers and small business unimpressed

By Paul Abrahams in Tokyo

Retailers and small businesses were unimpressed by Mr Hosokawa's package. Few believed it would boost the economy or improve their short-term sales. Most interest was focused on the tax cuts.

Mr Kenichi Mitsumori, president of a small printing group employing five workers in central Tokyo, said he expected the economy to deteriorate further this year in spite of the income tax cuts. "The income tax cut won't really affect consumers' attitudes, so I don't expect any changes in my business," he said.

"There won't be any recovery until the automotive sector picks up. One of my clients is a US carmaker, so the bilateral trade talks are probably more important for my business than any tax cuts," Mr Mitsumori said.

Sales staff at a small Tokyo clothes store were equally unimpressed. "The proposed tax cuts will only really affect the spending patterns of high-income earners. For most households, earning between Y7m (£43,346) and Y8m a year, life will continue to be hard, and they will continue to refrain from buying luxury clothes," said one manager. Turnover at the shop had been stagnant and was unlikely to improve in the short term.

Ms Kokusai Kikau, president of a small travel agency, took a dim view of prospects. "I don't think the tax cut will have any influence on my business. Most of my clients are middle class, and still manage to take a trip to Hawaii. I don't think the cuts will help these people to increase the number of times they go abroad."

The Isetan department store chain said the tax cuts might boost disposable incomes, but it was hard to gauge the likely impact of the measures.

Indian exports show 22% rise

By Stefan Wagstyl in New Delhi

India's exports rose 22.2 per cent to $2.6bn (£1.74bn) in December 1993, extending a surge which began in April, according to government figures.

The data will comfort the government as it prepares its 1994-95 budget, due to be announced later this month. Mr P V Narasimha Rao, the prime minister, who launched economic reforms in mid-1991, hopes rising exports will help fuel broad-based growth in the Indian economy.

Exports in the year to March 1993 grew by just 3.6 per cent due to a slump in sales to the former Soviet Union and because of unrest following the sacking of the Ayodhya mosque. In early 1993-94 exports recovered sharply although the underlying improvement was exaggerated by the late shipment of orders initially delayed by the riots.

More recent figures indicate exports are continuing to grow and suggest the government's pro-export policies are starting to produce results. For the nine months to the end of December, exports rose 19.9 per cent to $15.7bn – well ahead of the government's target of a 15-16 per cent rise.

However, imports in the same period rose by just 6 per cent because of continuing sluggish demand for imported machinery and other capital goods. Weak demand for imports has lifted India's foreign exchange reserves to the record level of more than $10bn, helping to stabilise the rupee and to give India a comfortable reserve.

It also reflects a prolonged slowdown in industry. Figures published yesterday showed industrial production in the seven months to the end of October, the latest period for which data is available, rose just 1.6 per cent. Manufacturing output was up 1 per cent.

Like last year, industry is urging the government to use the budget to raise spending and boost demand. But there are limits to how much the government can increase its own spending to encourage growth because of a sharp rise in public sector borrowing.

The fiscal deficit for 1993-94 could be as high as 6.5 per cent of GDP, compared with a target of 4.5 per cent. Economic growth is expected to be about 4.5 per cent, broadly in line with government forecasts, but the management of public borrowing has been hit by lower than expected tax revenues and higher than planned spending, including increased food subsidies.

Mideast talks progress slowly

By Julian Ozanne in Cairo

Israel and Palestinians yesterday made good but slow progress towards drafting a long-delayed agreement on security issues to implement Palestinian self-rule in the Gaza Strip and West Bank area of Jericho.

Mr Shimon Peres, Israeli foreign minister, and Mr Yassir Arafat, Palestine Liberation Organisation chairman, were due to meet President Hosni Mubarak, who is mediating between the two sides. Neither side offered any clue whether they would be able to initial a draft agreement last night or today, when Mr Peres and Mr Arafat are due to leave Cairo.

Mr Peres said: "We have to negotiate quietly... We shall try to conclude as soon as we can. I cannot give you a date." Mr Nabil Shaath, senior PLO negotiator, said the two sides had resolved "six or seven minor issues" in morning talks. "We are going a little slowly but we are going..."

Israeli officials confirmed the two sides were seeking to "clarify" a draft agreement reached between Mr Peres and Mr Arafat in Switzerland 10 days ago. The talks mainly focused on details of a Palestinian presence at border crossings; Israeli security arrangements at the borders and the operational role of the Israeli army in protecting Jewish settlers remaining in Gaza once Israeli forces have complete a troop redeployment.

Mr Yossi Sarid, environment minister, confirmed the Cairo talks were aimed at initialling the security clauses of a protocol as a prelude to Israeli troop withdrawal from Gaza-Jericho and the transfer of power to Palestinian hands.

Mr Sarid said that once the security clause were initialled, the two sides would have to hold at least two weeks of further talks in Paris and Egypt on economics and the role of the Palestinian police force before Mr Yitzhak Rabin, Israeli prime minister, and Mr Arafat could formally sign the protocol.

"We do hope to conclude the security agreement today and if not today tomorrow or after tomorrow," Mr Sarid said. But he cautioned: "Always the beginning of talks is very positive and the atmosphere constructive but some times it is difficult to translate that atmosphere into results."

Japan to cut drug prices by 6.5%

By Paul Abrahams in Tokyo

Japan's Health and Welfare Ministry yesterday confirmed it intends to cut prescription drug prices by an average 6.5 per cent. The cuts, part of a regular series of reductions every two years, will be implemented on April 1.

The move will further undermine a sluggish Japanese medicines market, the world's second most important. Analysts believe it is at present growing at only 3 per cent a year.

Japanese groups will be most affected, being so dependent on the domestic market. The cuts represent another blow for European and US companies, which over the past 12 months have endured often radical health care reforms in Germany, Italy, the UK, France, and Spain.

The growth of the US market, the world's largest, is also decelerating as changes transform the customer base.

Drugs groups operating in Japan have been informed how their medicines will be affected by the latest cuts. They can now appeal. The ministry expects to complete talks by the second week in March.

The cuts are based on a complicated formula dependent on the levels of discounts offered by wholesalers to hospitals and pharmacists. The new price is fixed by the ministry at the transaction price plus 13 per cent. No prices will be increased. The 6.5 per cent reduction compares with a cut in 1992 of 8.1 per cent.

Antibiotic prices are expected to suffer most because they are discounted more than other drug classes. The 6.5 per cent average reduction does not include additional "special" cuts on fast growing successful medicines such as cholesterol-lowering drugs and interferons.

These extra cuts have caused anger among domestic and foreign companies which believe the measures represent panic efforts to reduce health care spending at a time of falling tax receipts during the recession.

They have warned that the special cuts provide a disincentive to develop successful innovative compounds. Among the interferons affected will be Daiichi's Feron, with sales of about Y23bn (£142m) last year compared with group turnover of about Y201bn, and Yamanouchi's Interon A, a product licensed from Schering of Germany.

'Backsliding' on chip deal, Page 5

NEWS IN BRIEF

Nigerian foreign exchange sale

The Central Bank of Nigeria has set up a committee including representatives from banking and industry to allocate the first foreign exchange sale of the year to the private sector, writes Paul Adams in Lagos.

Under a regulated system announced in last month's budget, the government has fixed the exchange rate at N22 to the dollar, minimised the role of banks in foreign exchange and outlawed the parallel market where the dollar changes for at least N46.

The bank will allocate foreign currency pro rata to importers with 50 per cent going to manufacturing industry, 30 per cent for finished goods and 10 per cent for agriculture. The remaining 10 per cent of foreign exchange will be sold at the bank's discretion for invisible exports.

Militants claim bank bombs

Moslem militants in Egypt yesterday claimed responsibility for planting bombs at three Egyptian state banks, only one of which exploded, Reuter reports from Cairo. They said the bombs found on Monday were the start of a violent campaign to enforce the Islamic ban on usury. The Gama'a al-Islamiya, the largest militant group fighting the Egyptian government, gave people two weeks to withdraw their money from banks which pay interest.

Action urged on Somalia

Italy yesterday said the United Nations mission in Somalia faced collapse and called for a diplomatic drive before western troops pull out at the end of March to prevent all-out clan war, Reuter reports from Rome. Defence Minister Fabio Fabbri also said Italy was sending a naval task force to Somalia and putting warplanes on standby to cover the withdrawal of its own troops.

Togo votes along ethnic lines

Togo's former ruling party yesterday took a slim lead in the country's first multi-party parliamentary elections, but early results indicated voting in the West African state was splitting along ethnic lines, Reuter reports from Lomé.

Treuhand and French group seek to end uncertainty over Leuna

Elf may reduce stake in refinery

By Judy Dempsey in Berlin and John Ridding in Paris

A meeting aimed at resolving differences over one of eastern Germany's largest investment projects will take place today between Mrs Birgit Breuel, head of the Treuhand privatisation agency, and Elf Aquitaine, the French oil group.

Mr Philippe Jaffré, who took over as Elf chairman last August, is seeking to reduce his company's stake in the Leuna refinery from 65 per cent to 35 per cent as part of his strategy of curbing investments and increasing profits at the oil group. Elf, which is in the final stages of privatisation, saw net profits fall from FFr6.2bn in 1992 to FFr1.1bn (£120m) last year.

The rebuilding of the Leuna refinery, based in the state of Saxony-Anhalt, is seen as a crucial element of the Treuhand's long-term strategy for the region. It wants the refinery to provide the basis for a petrochemical industry developed around Leuna, as well as provide jobs in a depressed region of eastern Germany.

Mr Günter Rexrodt, the German economics minister, had already told Mr Edmond Alphandéry, his French counterpart and Mr Gérard Longuet, the French industry minister, that the uncertainty surrounding such an important project must be removed.

Under the terms of the 1992 agreement with the Treuhand, Elf undertook to rebuild with Thyssen Handelsunion the refinery with a total investment commitment of DM4.3bn (£1.64bn). The aim was to develop by 1996 a facility with a capacity of about 10m tonnes per year and secure at least 1,000 jobs.

British Petroleum and Statoil had also competed to acquire Leuna, but they could not match Elf's substantially larger investment commitments. As part of the deal, the French company gained control of the Minol network of service stations in eastern Germany.

Elf has repeatedly said it would find new partners for its reduced stake in Leuna. It is even considering reducing annual capacity to 8m in order to reduce the total investment requirement. But Treuhand officials yesterday said the company had found "no takers". It remains unclear if Elf's contract with Minol would be affected if it reduced its stake without finding partners. In any case, Treuhand officials confirmed it reserved the legal right to impose penalties for any breach of contract.

The Leuna investment project is backed by subsidies amounting to about 35 per cent of the total investment. Despite opposition from Germany's oil companies, which criticised the subsidies on the grounds of unfair competition, the federal government in Bonn, the European Commission, the Leuna board, and President François Mitterrand pushed hard for Elf's acquisition of Leuna and Minol.

Guidelines proposed to avert environment rows

By Frances Williams in Geneva

An ambitious attempt to heal the rift between trade, environment and development interests was launched yesterday with the publication of seven key principles designed to guide decision-makers on trade and environment issues.

The principles* are the work of a nine-strong expert group brought together by the Canada-based International Institute for Sustainable Development.

The group is hoping that the principles will help underpin the current debate in the General Agreement on Tariffs and Trade over its future work on trade and the environment. This work is due to be decided by ministers when they meet in Marrakesh in April to sign the Uruguay Round global trade accords.

Developing countries have expressed anxiety that rich nations could bar their goods on environmental pretexts.

Mr Richard Blackhurst, head of economic research at Gatt, said on Monday that the principles encompassed Third World concerns by opposing protectionism and dealing with the issues of resource transfer and poverty alleviation essential for sustainable development.

The seven principles are:

- Prices of goods and services should reflect their full costs, including environmental costs.
- Policies should promote equity, especially by tackling Third World poverty, which is a prime cause of environmental degradation.
- Trade and development policies should respect "environmental integrity" – the need to preserve species, ecosystems and the like which cannot necessarily be costed. "Such special conservation measures may represent an important exception to normal trade rules," the group says.
- Subsidiarity – the taking of decisions at the lowest level consistent with effectiveness. In particular, the group says countries should not use trade or other coercive measures to try to eliminate differences in national environmental standards. "Where there are significant transborder environmental impacts, solutions should be sought multilaterally," the group says.
- International co-operation on environment, development and trade policies should be strengthened. The group says international disputes procedures should be capable of addressing simultaneously environment, development and economic interests.
- Policies should be guided by scientific knowledge and, where uncertainty exists, by the "precautionary principle".
- Decision-making should become more open to public participation, with access to information for all those affected. Dispute settlement procedures should also be transparent, the group says.

* *Trade and sustainable development principles. Available from IISD, 161 Portage Ave. East, Winnipeg, Manitoba R3B 0Y4. Tel +204 958 7700; fax +204 958 7710.*

EU to scrap many quotas in overhaul of import regime

By Lionel Barber in Brussels

The European Union yesterday reached agreement on a comprehensive overhaul of its import regime coupled with a strengthening of its commercial defence weaponry.

EU foreign ministers meeting in Brussels agreed to scrap some 4,700 national quotas on cheap imports which have existed for the past 30 years, mainly against so-called state-trading countries such as China and North Korea.

A new EU-wide quota will cover a limited number of textile products as well as seven categories of Chinese imports, including crockery, kitchen ceramics, gloves, low-cost footwear, and transistors.

Despite continuing objections from the UK, ministers agreed to make it easier for the EU to take action against unfair traders. The main difference is that the Council of Ministers will retain the power to impose definitive anti-dumping or countervailing duties, but these will now be decided by a simple majority only.

This change reverses the earlier position whereby a UK-led free trade bloc, usually including Germany, Denmark and the Netherlands, was able to block anti-dumping duties through a qualified minority. The reform was agreed in principle last December as part of the price France demanded for supporting an agreement in the Gatt world talks.

Sir Leon Brittan, chief EU trade negotiator, said the new import regime and the streamlined operation of trade weapons would offer business more certainty and transparency.

"I don't regard this as a contradiction to open trade. Open trade means trade according to rules. If rules are broken by other people, it is no use having [just] the right to defend oneself. You have to have the capacity to defend yourself."

On China, ministers agreed to raise the quota on cheap plastic shoes from 22.6m to 35m pairs. Other quotas on low-cost leather shoes remain at the same level of around 60m pairs. The quotas do not apply to so-called high-tech running shoes, according to Brussels officials.

Mr David Heathcoat-Amory, British foreign minister, said the new rules did not amount to a great blow to free trade.

Japan 'backsliding' on chip deal, Clinton told

By Louise Kehoe in San Francisco

Japan is backsliding on efforts to open its markets to foreign semiconductor manufacturers, the US semiconductor industry has warned in a letter to President Bill Clinton ahead of his meetings with Japanese Prime Minister Morihiro Hosokawa next week.

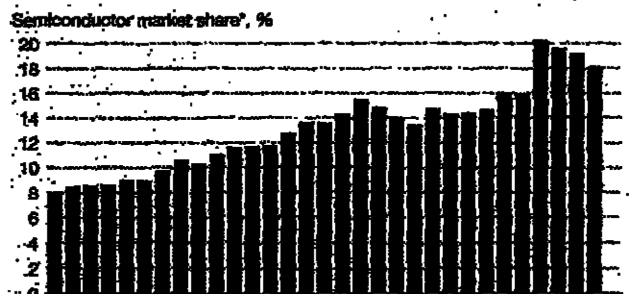
US-Japanese trade relations are in jeopardy because of deteriorating results from the 1991 US-Japan semiconductor trade agreement, the chip makers said, noting that the accord had become "a litmus test as to whether real progress can be made in the troubled US-Japan trading relationship".

"If this agreement fails, given all the priority and effort given to it by both countries' governments and industries, there is little reason to believe that any other negotiations can succeed."

"We can't help but feel that we are drifting toward an era of confrontation and recriminations. This is unfortunate because it is completely avoidable," said Mr Andrew Procassini, president of the Semiconductor Industry Association, a trade group representing US chip makers.

Japan

Semiconductor market share*, %



Source: 1986 Q2 – '91 SIA estimates; Q3 1991 to date USTR. *Foreign market share in Japan as defined by the 1991 US-Japan semiconductor agreement formula

"The US semiconductor industry wants sales, not sanctions" said Mr Daryl Hatano, SIA vice president. "But we feel that we are being pushed in that direction."

The foreign share of the Japanese semiconductor market rose above a 20 per cent target established in the trade accord in the fourth quarter of 1992, encouraging the Clinton administration to site the agreement as a model for other sectors because it established "measurable results".

However, over the past three quarters, the foreign semiconductor market share figure has fallen to 18.1 per cent. Emergency talks between the two governments last month in Tokyo failed to produce agreement on stemming the decline.

"The forward momentum has been lost and we are very worried about backsliding," said Mr Procassini. Although US industry executives expect a modest rise in the 1993 fourth quarter figure, it is not expected to meet US demands for an average 20 per cent market share for the year.

"The most disquieting aspect of this deterioration in foreign market share is the Japanese side's complete unwillingness to sense the seriousness of the problem or to commit to take any extraordinary steps to reverse the decline," Mr Procassini said.

Peru challenges Gatt criticisms over economy

By Frances Williams

Peru has abandoned its long-standing import substitution policy and put decades of state intervention into reverse, but the private sector has been slow to respond, the General Agreement on Tariffs and Trade secretariat says in a report which it published yesterday

The report blames high interest and tax rates, competition from the informal sector (which is estimated to account for almost 40 per cent of gross domestic product), inadequate infrastructure, an overvalued exchange rate, and terrorism.

However, this view was challenged as outdated by Peruvian officials when the Gatt council met this week to discuss the report, originally compiled in spring 1993.

The latest figures showed nearly 7 per cent GDP growth for 1993, with a further 5 per cent growth expected this year, officials said.

Inflation had been brought down from a peak of 7,650 per cent in 1990 to 40 per cent in 1993, with the aim of reaching single digits in 1995.

The struggle against terrorism was being won and the informal sector was being steadily integrated into the formal economy, partly as a result of tax reforms.

Peru's efforts since 1990 to liberalise trade and increase domestic competition, in the context of a comprehensive economic stabilisation programme, generally win Gatt's praise. The report notes that average tariff levels have been slashed from 66 per cent in 1989 to 16 per cent in June 1993; the government is aiming at a 15 per cent uniform tariff by January 1995.

Price controls, subsidies, quotas and foreign exchange restrictions have been scrapped and there has been a thoroughgoing privatisation programme. The reforms and recent legislative changes have helped restore the confidence of foreign investors, the report says.

Though Peru accounts for just 0.11 per cent of world trade, it is the world's largest producer of fishmeal and cochineal, the second largest silver and zinc concentrates producer, the third largest lead concentrates producer and the fifth largest copper producer.

Peru is also the world's largest producer of coca leaves and the rapidly growing illicit trade in coca-cocaine products is now estimated to equal one-third to one-half of recorded merchandise exports.

NEWS: UK

Labour attack over 'divisive' tax policy

By James Blitz and Graham Bowley

Britain's opposition Labour party yesterday found fresh ammunition in its battle against the government's taxation policy after an independent think-tank said that the tax rises introduced in the last two Budgets would mainly be at the expense of people on middle incomes.

In a report published yesterday the Institute for Fiscal Studies said that the tax rises announced last year by Mr Kenneth Clarke and his predecessor as chancellor, Mr Norman Lamont, would largely reverse the overall reduction of taxation in the late 1980s.

However, direct taxes on incomes were reduced in the 1980s while indirect taxes, which are mainly levied on consumption, will now account for much of the revenue rise. Those who gained from the cuts in the 1980s will not be the same people to lose from the increases.

The report showed that people on middle incomes would be particularly badly hit by the last two Budgets because of changes to mortgage interest relief, married couples' allowance and the VAT on fuel.

It claimed that the poorest 10 per cent of the population will have lost an average of £3 per week from tax changes in the decade to 1995, while the richest 10 per cent will have gained over £30 per week on average.

"Those who have done worst," it said, "are the unemployed with children."

Mr Gordon Brown, the shadow chancellor, said the figures showed how the Conservatives had turned Britain's tax system into "the most powerful weapon for reinforcing inequality and creating record unfairness in British society".

He claimed that the government had created "the most unfair tax system since the 1930s", saying that the top 1 per cent of earners had received a total of £75bn in tax cuts since the Conservatives came to power in 1979.

Mr Stephen Dorrell, financial secretary to the Treasury, countered that Tory tax policy had boosted wealth creation, improving living standards and increasing the amount of tax paid by high earners.

"The figures show that a man on average earnings with two children have seen his real take-home pay grow by over £80 a week since 1979," Mr Dorrell told BBC radio.

The IFS report also showed that households' disposable incomes will have risen by an average of £4 per week as a result of the tax changes since 1985, but that these gains will be distributed unevenly.

High income households gained substantially from the reductions in income tax rates, whereas poorer households gained little and will lose from the increases in indirect taxation.

MP's death adds to pressure on Tories

By Kevin Brown, Jimmy Burns and Roland Rudd

Concern about the political consequences of the bizarre death of a Conservative MP was growing among Tory backbenchers yesterday, in spite of plans by Mr John Major to launch yet another attempt to shore up his government's authority.

Party leaders sought to distance the government from the death on Monday of Mr Stephen Milligan, MP for Eastleigh, which was still being investigated by police last night.

"I think the public will take the view that this kind of tragedy could take place in any party, in any organisation, and will view it in that way," said Sir Norman Fowler, Conservative party chairman.

The circumstances of Mr Milligan's death, which were leaked by junior police officers, prompted rumours about other MPs. Mr Milligan was found on the floor of his west London house, bound and gagged and wearing ladies' underwear.

Shocked Tory MPs drew comfort from the reluctance of Labour and the Liberal Democrats to exploit the affair, regarded by the opposition parties as a personal matter. Party officials hope the opposition silence will ensure that the political impact is less damaging than other recent scandals such as the admission by Mr Tim Yeo, a junior minister who later resigned from the government, that he had fathered a child outside marriage.

But some Conservatives said the response to Mr Milligan's death demonstrated the danger of the prime minister's determination to stand by his Back to Basics campaign for a return to traditional values.

"The Back to Basics campaign is too inward looking," said Ms Emma Nicholson, Tory MP for Devon West. "It has become a self-destructive slogan. I think we should drop it."

The government's difficulties increased last night when Lord Tebbit, a leading Euro-sceptic followed up recent criticisms of foreigners by Mr Michael Portillo, chief secretary to the Treasury, by questioning the probity of European Union governments.

The government is expected to announce that the Eastleigh by-election wil be held on May 5 to coincide with local elections in metropolitan areas.

Liberal Democrat leader Paddy Ashdown yesterday with Diana Maddock, MP for Christchurch; party president Charles Kennedy; and Europe spokesman Sir Russell Johnston Picture: Ashley Ashwood

Lib Dems refocus European strategy

By Roland Rudd

The Liberal Democrats have refocused their European strategy to maximise their chances of taking a number of Tory seats in the June European elections.

The new policy, launched yesterday, emphasises decentralisation and diversity instead of what one senior Liberal Democrat called "loose talk of a united states of Europe".

Mr Paddy Ashdown, Liberal Democrat leader, denied that the party was "watering down" its commitment to a federal Europe, but conceded that there had been "a change of presentation".

The party has also gone back on its pledge to reduce defence spending by 50 per cent – which if implemented could have led to job losses in south-west England – in light of the instability in eastern and central Europe.

Mr Ashdown said: "Anyone who looked at the world in 1989 and said it was exactly the same in 1993 would be a fool. It's not true of the government and its not true of us".

The Liberal Democrats, currently without representation in the European Parliament, have targetted between 3 to 10 of the UK's 81 seats. Their campaign strategy is to use the European elections to expand out of their stronghold in the south-west throughout the south of England.

The forthcoming by-election at Eastleigh – due to the death of Mr Stephen Milligan – could not come at a better time for the Liberal Democrats.

To enhance its appeal to Conservative voters in the south of England the Liberal Democrats' new policy document on Europe, Making Europe Work for Us, only refers to the concept of a federal Europe in terms of decentralising power.

Malaysia aid row sees fresh disclosure

By James Blitz and Robert Peston

Precise amounts of British foreign aid were offered to the Malaysian government in return for arms sales as part of a preliminary agreement between the two governments, the Foreign Office disclosed yesterday.

The disclosure, that a protocol for a £1bn arms deal signed in March 1988 by the two governments contained "figures relating amounts or percentages of civil aid to amounts of arms purchases", is the most compelling evidence to date that the British government breached its own guidelines that the provision of aid should not be linked to arms sales.

The admission was made last night in a parliamentary written answer by Mr Alistair Goodlad, a Foreign Office minister, to a question from Labour MP Mr Alan Williams. The allegation that the protocol contained an arms-for-aid formula was first made last week in the Economist newspaper.

Last month the foreign secretary, Mr Douglas Hurd, had said that the the protocol included "a reference too 'aid in support of non-military aspects under this programme'," but gave no hint that precise amounts of aid were offered.

In an interview last week, Lord Younger, who was defence secretary at the time and signed the protocol, said that he had "no recollection" that it contained an aid for arms formula.

The Foreign Office would not reveal last night the specific amounts of aid offered in the protocol. But the disclosure strengthened claims by Labour MPs that the donation of £234m of aid to the Malaysians to help build a dam on the Pergan river was made in return for the arms deal.

At the end of last year, a National Audit Office report criticised the method of funding for the dam chosen by the UK government.

Bank of England cautious on risk of renewed inflation

By Peter Norman, Economics Editor

In deciding yesterday's quarter point cut in UK interest rates, the Treasury and Bank of England have accepted that there is a risk that inflation in Britain could start to gather pace again, the Bank's latest inflation report makes clear.

The report forecasts a slight rise in underlying inflation, as measured by the retail prices index minus mortgage interest payments, from 2.7 per cent in December through 1994. However, the Bank's "central projection" is that RPIX, as the underlying rate is known, will be just over 3 per cent by the end of next year and so within the government's 1 to 4 per cent target range.

Both RPIX and the "headline" retail prices index are set to rise over the coming months as the indirect taxes announced in last year's two Budgets come into effect and earlier mortgage interest rate cuts drop out of the 12-month comparison. Over the next two months the gap between RPIX and headline RPI, which was 1.9 per cent in December, will largely disappear.

The report acknowledges that recent inflation figures have been better than expected and this observation provides the intellectual underpinning for yesterday's rate cut. However, it notes that the projected path of RPIX to the end of 1995 keeps inflation in the upper half of the government's target range and that the risks to this projection are "asymmetric" in the sense that a rise in underlying inflation is more likely than a further fall.

It is no surprise that the Bank favours a refined version of the underlying inflation measure, which excludes local authority and indirect taxes as well as mortgage payments and which it calls RPIY. This has fallen sharply in recent months and at 2.3 per cent is in the lower part of the government's target range. Some of the recent decline in RPIY has reflected a one-off fall in supermarket food prices. But the Bank expects this measure to stabilise at around 2.5 per cent from the first half of this year.

Its hope is that people will focus on RPIY.

But it notes that inflationary expections, particularly among wage bargainers, are above the rates of inflation that have recently been achieved.

The Bank admits that it is difficult to gauge the strength of the present UK recovery and that judgments on the state of the economy are unusually uncertain.

Further delay for Channel tunnel services

By Charles Batchelor in London and John Ridding in Paris

The long-delayed launch of train services through the Channel tunnel received a further setback yesterday with an announcement that the start of services is to be delayed for several more weeks.

Eurotunnel, the company that runs the tunnel, said passenger shuttle services were not now expected to start on May 8 as planned. Freight services, due to start in March, could be delayed until April or early May – they are now scheduled to start sometime before May 6, when the tunnel will be officially opened by the Queen and President François Mitterrand.

Eurotunnel said no significant problems had been encountered, but the complexity of the commissioning programmes had meant some tests had had to be repeated and others had been rescheduled.

"We want to offer a completely reliable service and we thought it was better to guarantee this even if it meant a slight delay before opening," said Mr Christian Zbylut, director freight operations at Calais. He said the problems that had been discovered during the tests were usual in such a high-technology project. "On one locomotive there are about 500 tests which have to be performed," he said.

According to a Eurotunnel official, some problems are taking longer than expected to resolve. They include hitches in the hydraulic system and the alarm warning lights. "The systems work, but in some areas we have not achieved the reliability we want," he said.

The £10bn project was originally planned to open in May last year but has been hit by recurring delays.

Railfreight Distribution, the British Rail subsidiary which handles container shipments to the Continental, and SNCF, the French railway, said they would seek an urgent meeting with Eurotunnel to obtain a firm date for the start of freight services.

The Road Haulage Association said it was disappointed at the delay but it did not think that large numbers of road hauliers had intended to use the tunnel from outset. Those affected would reroute shipments to the ferries.

CTL, a freight company that had planned to run two trains a day through the tunnel to Italy starting on March 14, said it was better for Eurotunnel to delay the launch so that when it did start it could provide a reliable service.

Eurotunnel yesterday offered refunds to passengers who had planned to travel through the tunnel in May. Passengers who are able to delay their journeys can use their tickets when the tunnel finally opens.

Immigration staff rail against foreign duties

By Lisa Wood, Labour Staff

The prospect of being obliged to eat *boeuf bourgignon* and drink house wine in some anonymous hotel on the outskirts of Calais has provoked British immigration staff to ballot on boycotting work on the French side of the Channel tunnel.

More than 650 immigration service members of the NUCPS civil service union are being asked to boycott work at Coquelles, the village on the French side of the Channel tunnel.

The UK authorities have decided not to establish a permanent station on French soil to inspect UK-bound traffic using Eurotunnel's rail shuttle service.

Instead the Immigration Service intends to send staff over to France for a two-day shift. Officials estimate that staff will have to make stop-overs about seven times a year.

The union disputes this and says it will be nearer 20 times a year.

Immigration staff, who object to their deployment on foreign soils in principle, say that in any case the arrangements for working at the French end of the tunnel are unacceptable.

They object to having no choice over which hotel they will stay at and the fact that they will be obliged to dine there, with no allowance for eating elsewhere.

Mr John Oliver, NUCPS branch secretary, said members objected to there being no choice of food.

He said: "Many of our members are vegetarians. In addition how many French hotels serve breakfast at 5am when we have to get up for our early shift?"

Mr Oliver said he had heard that French immigration workers, who would be doing similar shifts in the UK, had also objected to their arrangements.

The ballot result will be announced later this month and if successful the boycott will begin when the tunnel officially opens.

Other immigration workers who are members of the Immigration Service Union are considering whether or not to hold a similar ballot.

Crime probe on futures markets

By Tracy Corrigan and Bronwen Maddox

Britain's National Criminal Intelligence Service is investigating possible activities, including money-laundering, by organised crime on London's futures markets.

The investigation, which started four months ago, was undertaken with the co-operation of London's five futures exchanges, including the London International Financial Futures & Options Exchange (Liffe) and the London Metal Exchange (LME).

It was prompted by concern that futures markets in London could be vulnerable to criminal activities such as money laundering, as they have been in the US and other overseas markets, rather than because of any individual cases.

Detective Inspector Graham Saltmarsh, head of NCIS's organised crime unit, described the undertaking as an overview, prompted by anecdotal information.

New money-laundering regulations form part of the criminal justice act which comes into force on April 1. This will place much more onerous responsibilities on counterparties which are unwittingly involved in money laundering.

Mr Hamish Ramsay, legal counsel for the Futures and Options Association, the futures industry trade body, said: "The new regulations will assist in tightening controls for second and third-tier institutions and this will have a positive effect on the futures and options industry in the UK." The association is holding seminars on money-laundering.

On futures exchanges individual member firms, such as brokers and banks, buy and sell futures contracts on behalf of clients. The exchanges do not, however, know the identity of these clients. Consequently the paper trail may be hard to follow.

If the examination shows that money-laundering is occuring, it might be possible to change the structure of exchanges to block this route.

According to Mr Richard Parlour, a legal expert at Clifford Chance, a minimum of $90m of dirty cash is believed to enter the world's financial system every year.

The NCIS also said that at a later stage it might investigate whether organised crime had penetrated the toxic waste industry. "It has happened on the Continent and in the US, although there is no evidence it has happened here," it said.

The National Association of Waste Disposal Contractors said the NCIS's fears seemed "highly unlikely – there are too many checks on waste management these days." Infiltration of the industry by organised crime "has happened in other countries, but we're not aware of it here."

Britain in brief

Dublin cool on proposals for Ulster

The Irish government is not planning an immediate response to the British government's latest proposals to renew round-table talks in Northern Ireland, but will make its own suggestions "for additional areas of discussion" in the coming weeks.

The cool response to the proposals sent to Dublin at the weekend by Sir Patrick Mayhew, Northern Ireland secretary, underlines the differing emphases of the two governments over the next step to take in the Northern Ireland peace process.

Mr Dick Spring, Irish foreign minister, yesterday described Sir Patrick's proposals as "a checklist of relevant points in relation to the recommencement of talks" and emphasised that any new talks must be on the basis of the joint declaration and the three-strand talks which broke up without agreement in November 1992.

Mr Albert Reynolds, Irish prime minister, said yesterday that next week's UK-Irish summit in London, will focus on reviewing progress on the joint declaration.

Lloyd's losses 'may be higher'

Lloyd's of London is set to announce heavier-than-expected losses when it reports its results for 1991 and 1992 over the next 18 months, Chatset, the company that analyses the insurance market's figures, said yesterday.

In its latest forecast Chatset estimates that losses will amount to £2.05bn for 1991 and up to £1bn for 1992, bringing the market's cumulative deficit since 1988 to more than £8.5bn.

Chatset said that US risks had been inadequately priced and claims from catastrophes such as typhoon Mireille in Japan and the Calgary hail storms in Canada would also leave many underwriters with losses.

Banking code is attacked

Sir Bryan Carsberg, director-general of fair trading, yesterday described the revised code of banking practice as a wasted opportunity. The code was published yesterday, and his attack was the first in a chorus of criticism which included the Consumers' Association and National Consumer Council.

Sir Bryan said that banks and building societies had failed to introduce a self-regulatory requirement to give "best advice" to bank customers.

The code, accepted voluntarily by over 280 banks and building societies, is a second edition of the guidance that was issued two years ago, and the new version imposes some fresh obligations on those who sign up to it.

These include requirements to give customers at least 14 days' advance notice of charges and interest; not to pass customer information to other companies in the group without the customer's express written consent, and not to make giving this consent a condition of providing basic banking services.

Independent bid 'may be raised'

The consortium including Mirror Group Newspapers that last week launched a bid for Newspaper Publishing, owners of The Independent is now free to increase its offer.

The £2.60 per share offer for the 52 per cent of the shares the consortium did not already own quickly became academic after Mr Tony O'Reilly's Independent Newspapers of Ireland bought 24.99 per cent of Newspaper Publishing at £3.50 a share.

The consortium, which also includes the founders of The Independent led by Mr Andreas Whittam Smith, El Pais of Spain and La Repubblica of Italy, is now considering the possibility of increasing its bid.

Following talks with the Takeover Panel, the consortium yesterday said: "The consortium has chosen not to be bound by the statement that was made not to increase its offer for the share capital of Newspaper Publishing."

An early decision is unlikely. Mr Ian Hay Davison, chairman of Newspaper Publishing, has embarked with fellow non-executive director Sir Kit McMahon on a series of talks with all parties involved.

The talks are not due to be completed before next week and any possible further bids are unlikely until then.

Doll sells for record price

A porcelain doll, made by the German company Kämmer and Reinhardt in 1909, sold for £188,500 at Sotheby's in London yesterday to a private German collector. The price, within the saleroom's estimate, set a record for any doll at auction. The doll, 64cm high, is believed to be unique. The previous record price for a doll was the £155,000 paid in the US last August.

Withdrawal from ILO considered by UK ministers

By Robert Taylor, Labour Correspondent

Ministers are considering pulling the UK out of the International Labour Organisation in protest at the growing threat of condemnation of the government's industrial relations policies by delegates at the ILO's conference in June.

The main cause for expected ILO censure is the continuing ban on unions at the government's communications headquarters at Cheltenham. The ban was introduced by Mrs Margaret Thatcher just over 10 years ago when she was prime minister.

Efforts to find a settlement failed last December after a meeting between Mr John Major, prime minister, and the civil service union leaders. Mr Major made clear he believed there was a conflict of loyalty between a worker belonging to a union and working in the communications centre.

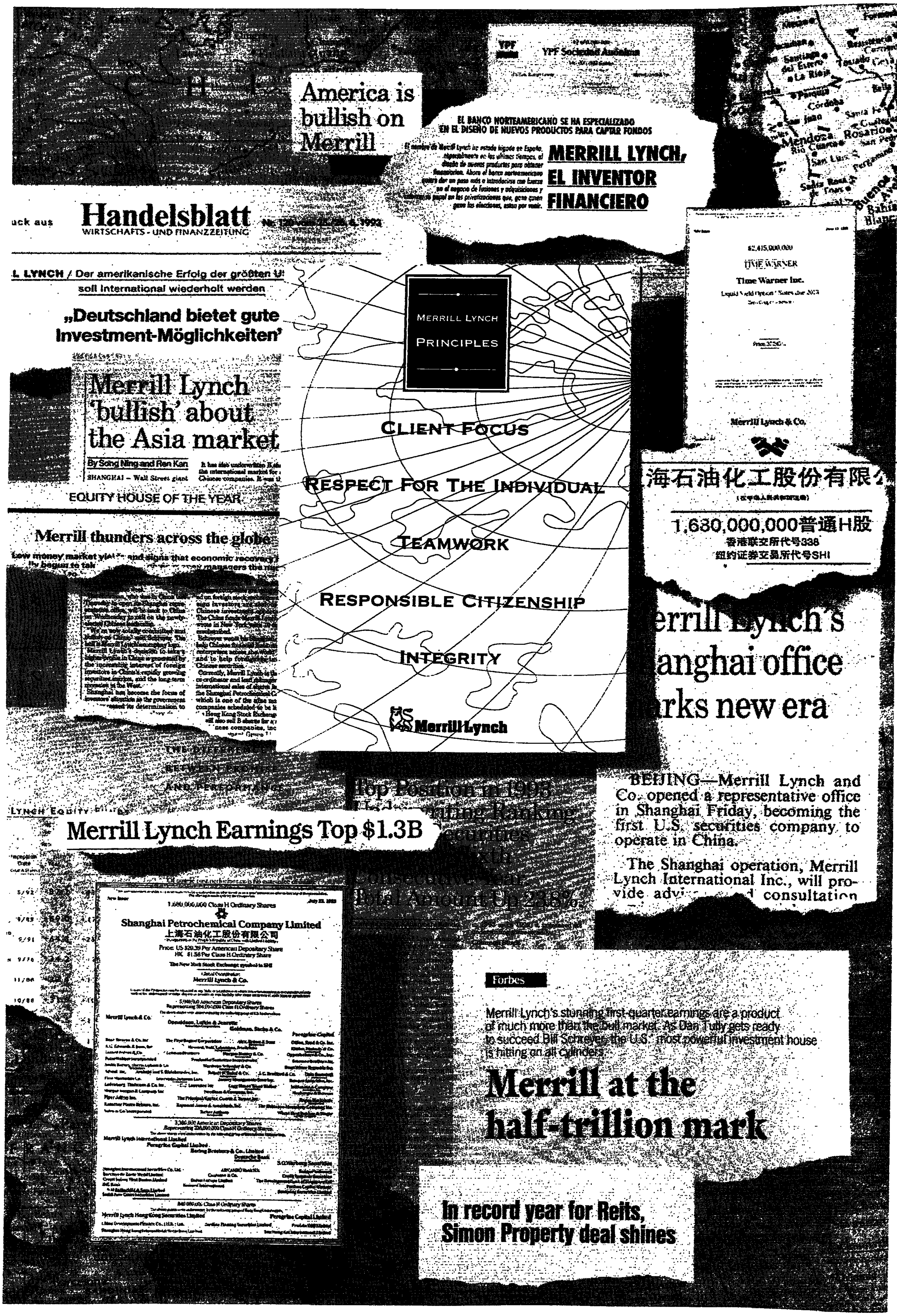
The talks had been encouraged by the ILO as a way of trying to end the deadlock.

The Trades Union Congress is now seeking censure of the UK government by the ILO conference. The matter is being considered by the ILO's committee of experts, which will decide by April whether to recommend condemnation of the British action.

Union leaders believe Britain could be given a "special paragraph" of criticism in the ILO annual report, a sanction normally reserved for dictatorships such as Haiti and North Korea.

The government has faced growing criticism from the ILO over its industrial relations policies. The TUC has made nine formal complaints to the ILO over breaches of labour standard conventions by British ministers since 1979.

Under the ILO's procedures Britain would have to give two year's notice of its intention to pull out of the organisation. It would also be bound by conventions it had signed on good labour standards even if it was no longer an ILO member.



America is bullish on Merrill
EL BANCO NORTEAMERICANO SE HA ESPECIALIZADO EN EL DISEÑO DE NUEVOS PRODUCTOS PARA CAPTAR FONDOS
MERRILL LYNCH, EL INVENTOR FINANCIERO
Handelsblatt
WIRTSCHAFTS- UND FINANZZEITUNG
„Deutschland bietet gute Investment-Möglichkeiten"
Merrill Lynch 'bullish' about the Asia market
EQUITY HOUSE OF THE YEAR
Merrill thunders across the globe
MERRILL LYNCH
PRINCIPLES
CLIENT FOCUS
RESPECT FOR THE INDIVIDUAL
TEAMWORK
RESPONSIBLE CITIZENSHIP
INTEGRITY
Merrill Lynch
TIME WARNER
Time Warner Inc.
Merrill Lynch & Co.
海石油化工股份有限
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rks new era
BEIJING—Merrill Lynch and Co. opened a representative office in Shanghai Friday, becoming the first U.S. securities company to operate in China.
The Shanghai operation, Merrill Lynch International Inc., will provide
Merrill Lynch Earnings Top $1.3B
Shanghai Petrochemical Company Limited
上海石油化工股份有限公司
Forbes
Merrill Lynch's stunning first-quarter earnings are a product of much more than the bull market. As Dan Tully gets ready to succeed Bill Schreyer, the U.S.' most powerful investment house is hitting on all cylinders.
Merrill at the half-trillion mark
In record year for Reits, Simon Property deal shines

THE DIFFERENCE BETWEEN RECOGNIZING A GREAT YEAR AND NOT FORGETTING HOW WE GOT THERE

Last year, Merrill Lynch was responsible to more countries, companies and individuals, with more underwriting and financial advice in more markets and across more borders, than any firm in history.

We succeeded, as we always have, by letting our principles light our way; by focusing on our clients and building long-term relationships with them; by using teamwork to deliver seamless integration of our services; by respecting our clients and colleagues as individuals; by acting as responsible citizens in the communities where we live and work; and above all, by maintaining our reputation for integrity.

The world changed greatly in 1993. People, nations, capital, and markets all grew closer, creating unprecedented opportunities for the growth and prosperity of humankind. But while the world grows smaller, it also grows more complex. More than ever, helping clients navigate in this complex global marketplace requires global resourcefulness, strategic perspective and creativity.

1993 was also a year in which the world increasingly recognized these qualities in Merrill Lynch. Our firm was cited as "Equity House of the Year" by *International Financing Review* and as "best overall manager of corporate financings" by *Corporate Finance*. The landmark transactions that Merrill Lynch joint lead-managed for YPF, and lead-managed for Simon Property Group and Fannie Mae, were named "Deals of the Year" by *Investment Dealer's Digest*. And our Global Economics and Research group was top rated in both the *Institutional Investor* and *The Wall Street Journal* polls. In a survey by Towers Perrin, senior bank executives rated Merrill Lynch "the best managed non-bank retailer" in the U.S.

More important than any of these honors, however, is the trust that our clients continue to place in us. Last year, assets entrusted to us by individual clients grew to nearly $540 billion–more than any other firm. Clients continued to seek planning advice and guidance from our Financial Consultants, the most extensively trained in the industry. And they continued to rely on our FCs to help them choose from the most comprehensive array of products and services to meet their needs.

Fifty-four years ago, our founder, Charles E. Merrill, declared: "Our clients' interests must come first. Upon our ability to satisfy them rests our chance to succeed."

We'll stand by that statement. It got us where we are. We know it will still make a difference fifty-four years from now.

The difference is Merrill Lynch.

Merrill Lynch

A tradition of trust.

BUSINESS AND THE ENVIRONMENT

Trees branch out

Willow and poplar are being grown for fuel, reports Alison Maitland

Robert Goodwin is at the cutting edge of farming technology. He is one of five British farmers involved in a pioneering project to grow willow and poplar as a fuel crop that is commercially viable and kind to the environment.

Winter is a busy time on Goodwin's 75-hectare cereal farm in Essex, 50 miles north-east of London. This is when the one-year-old trees have to be cut back, or coppiced, so the stumps sprout. The new shoots, which can grow up to four metres in the first year, will be harvested after two to five years and turned into woodchips to be burned for electricity.

Coppicing of woodland goes back to the middle ages. But growing tree crops for fuel on arable land has only taken root in Europe in the past few years. Sweden, with vast forests and a strong commitment to renewable energy, already has about 9,000 hectares under commercial production.

Now farmers in the European Union are becoming interested because of the introduction of compulsory set-aside, under which they can grow non-food crops without forfeiting subsidies. The National Farmers' Union will debate the issue at its annual meeting in London today.

Cereals and oilseeds, straw and farm waste are all being tried for fuel. But arable coppice is seen in Britain as having the greatest potential, in terms of cost and impact on the environment. The government is funding the £1.1m five-farm project and last year included coppice in the list of non-fossil fuels from which electricity companies are obliged to obtain some of their power.

Goodwin, whose family has grown willow for cricket bats for a century, is enthusiastic about the new use of the tree. "As far as its environmental attractiveness is concerned, I don't see anything coming close to it," he says.

Robert Goodwin: at cutting edge

Although weed-killer is used to protect the young trees in their first year, coppice does not need constant applications of agro-chemicals during its 30-year life-span. The nutrients in soil previously used to grow cereals, coupled with annual leaf fall, can replace fertiliser. Sewage sludge can also be used, offering one solution to the problem of disposal that will arise when dumping sludge at sea is banned in 1998.

The trees attract wildlife. "We have found more than 40 species of bird within our plantations," says Goodwin. "We wouldn't have seen a fraction of those under cereal production." Access is provided for walkers and riders to open space around the trees, and there should be none of the visual objections associated with wind turbines.

The burning process is surprisingly clean, too. Coppice releases no more carbon dioxide when burned than it absorbs during growth, emissions of nitrogen oxides and sulphur dioxide are low and the ash can be recycled as fertiliser. The wood crop produces about 30 times the energy used to grow and harvest it, compared with an energy ratio of less than two-to-one for the diesel substitute made from oilseed rape.

Establishing a plantation is currently expensive at £1,300 or more a hectare. But grants are available from the Forestry Authority. The government is also considering encouraging coppice production on fixed set-aside land by "rolling up" five years' worth of subsidies into a lump sum of about £1,550 a hectare in the first year. The expectation is that coppice will require little or no financial support once established as a commercial crop.

With such attractions, many farmers are contemplating coppice as a way of sustaining rural employment. But most are hesitant until there is a proven market. That is why a group of farmers and businessmen set up Border Biofuels in 1992 to build power plants fuelled by woodchips.

The company is applying for a licence for a 5MW plant – enough to supply electricity to a small town – near St Boswells in the Scottish Borders. Initially the £6m plant would burn forestry residue but this would gradually be replaced by coppice. The company hopes to assemble 30 or more farmers growing up to 2,000 hectares to supply the plant.

"It's a commercial crop with a margin comparable to cereals, subject to the market being established," says Harry Frew, a director. Once coppice took off, cuttings would become widely available and the high cost to new entrants of about 10p a cutting could be slashed to 1p or 2p.

Several regional electricity companies are interested as well. South Western Electricity (Sweb) is applying to build a 2.5MW power plant in Cornwall, using 18,000 tonnes of dry coppice a year from local growers. It has plans for three other wood-fuelled plants of 5MW to 10MW in Hampshire, Suffolk and Northamptonshire.

"We're keen to break this chicken-and-egg situation of no-crop-no-market and no-market-no-crop," says Gerry Swarbrick, power resources manager. "We believe renewables deserve a chance to demonstrate themselves on a commercial basis. We expect these technologies will one day stand on their own two feet."

There is a long way to go. The UK government aims to stimulate a modest 1,500MW of new electricity-generating capacity from renewable sources by the end of the decade – about 3 per cent of the country's electricity needs. Coppice would initially be a tiny part of that, with only about 100 hectares so far being grown.

But the government-sponsored Renewable Energy Advisory Group presented a striking vision of its potential as the technology improves. It forecast that if 2.8m hectares – 16 per cent of agricultural land – were turned over to coppice by 2010, the energy created could amount to 22 per cent of electricity consumption.

Should the green motorist choose a diesel or petrol car, asks John Griffiths

The cleaner choice

Many motorists seeking a car that is both economical and relatively inoffensive environmentally must have reached the end of last week in confusion over whether to choose a diesel or petrol vehicle.

On Thursday, a UK government panel of scientists warned that increasing traffic density threatens to create harmful airborne levels of benzene, linked with a form of leukaemia. Nearly 80 per cent of airborne benzene comes from petrol cars. Only 9 per cent comes from diesels.

The level of benzene would be much lower if most cars continued to use leaded petrol (benzene partly compensates for lead's absence). Yet for a long time motorists have been encouraged to switch to unleaded fuel to help to keep organ-damaging lead out of the atmosphere.

Some motorists might have been tempted to explore the merits of diesel cars, heavily promoted by the motor industry recently as more environmentally-friendly and economical than petrol cars.

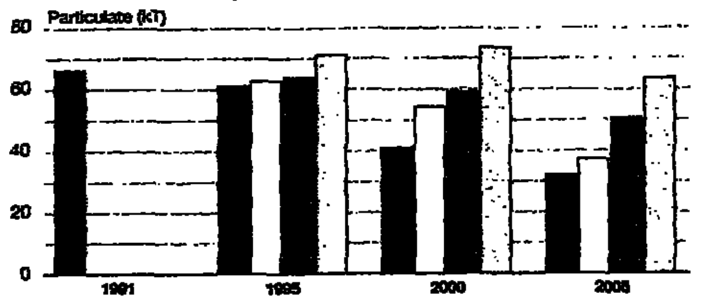
Yet little over a week ago the Quality of Urban Air Review Group (Quarg), a panel of experts appointed by the UK's department of the environment, criticised diesel cars for their emissions of nitrogen oxides – a factor in smog formation and "acid rain" – and tiny particulates strongly suspected of causing cancer.

The panel warned in a report that by early next century there could be cause for "considerable concern" about the deterioration of air quality in urban streets if diesel cars continue their current strong sales acceleration – they already account for about one in five new cars sold in the UK.

Not surprisingly, the report prompted an instant, hostile response from the motor industry, which had been given no prior warning of it. Car makers said it was "misplaced, misguided and fundamentally unsound".

The industry's concern is understandable to some extent. The UK car market is still at a fairly early stage of recovery from one of its steepest recessions on record, and is worried that confused motorists might now, if only temporarily, opt to stay out of the showrooms. An adverse report on diesels' possible carcinogenic hazards in the 1980s helped to reverse Germany's diesel boom and hit car sales overall.

Four scenarios for particulate emissions



The amount of particulates, which will be emitted if diesel cars' share of total new car sales:

Stayed at 16% — Base case; 17.7% — Case 1; 31% — Case 2; 49% — Case 3

Source: Quality of Urban Air Review Group

And while the German market has begun to climb again, some in the diesel car industry such as John Maddell, a senior executive of Lucas Industries, say it led to Germany's motor industry losing its technological lead to the French.

Now that the furore over the Quarg report has faded, it is becoming apparent that the differences between the motor industry and the panel are more in degree than fundamentals. The industry retains its belief that the panel, in arriving at its "considerable concern" warning, is not taking enough account of technological progress being made to further reduce the two pollutants – nitrogen oxides and particulates – for which diesel has been most criticised.

The report pays due tribute to the advantages of diesel over petrol. These include much reduced emissions of carbon dioxide, the inescapable by-product of combustion linked with global warming, and of two other pollutants, hydrocarbons and carbon monoxide.

It acknowledges that, currently at least, commercial vehicles – mainly trucks and buses – are much bigger culprits than diesel cars in terms of poor urban air quality.

At the heart of the Quarg report lie its projections about the share of the total car market likely to be taken by diesel cars and the effect that this will have in terms of all the pollutants they emit but mainly particulates – of which the notorious black diesel smoke forms only a part (see above chart).

What the panel views as the potential reduction of particulate emissions through technological progress – and tighter EC emissions standards for all cars from 1996 – is apparent in the chart. At a constant 16 per cent share of the market, the amount of particulates emitted by diesel cars would be halved from around 65 kilotonnes to 30 kilotonnes by the year 2005.

However, in the steepest growth scenario, with the diesel share of new car sales rising to 49 per cent, the volume of particulates emitted would be little changed from 1991 levels and government goals of improved urban air quality would be unfulfilled.

The industry's complaint is that this scenario does not take adequate account of current and future developments in diesel technology; that diesels tend to maintain a consistent emissions performance whereas petrol engines and their catalysts degrade and become much "dirtier" after 50,000 miles; and that the relative lack of large-scale testing of vehicles in use in city centres downplays the heavy emission of pollutants by catalyst-equipped petrol cars on short journeys because their "cats" do not reach full operating temperature.

In reality, the jury will be out for some time before either side can be proved right.

Industry technologists maintain that substantial improvements are still to come from refining technologies already in use, such as exhaust gas recirculation and electronic management of fuel systems.

Still several years away, however, are possible leaps in anti-pollution technology for diesel vehicles.

Most promising among them is an oxidation catalyst for diesels, mainly to cut nitrogen oxide but also capable of reducing particulate emissions. This research is being led by Japan, and the Mazda car company is believed to be near to making them commercially available. Research is also continuing on particulate "traps", which would capture the particles and then burn them off at intervals.

When these are coupled with the introduction of low-sulphur diesel fuels, the volume of both particulates and nitrogen oxide emitted by diesel cars should fall substantially. Under a recent EC directive, the permitted level of sulphur in diesel fuel will fall from around 0.5 per cent by weight now to 0.2 per cent by weight on October 1 this year and to 0.05 per cent in October 1996. "The problem could easily disappear," says Roger King, spokesman for the Society of Motor Manufacturers and Traders.

Whether it does or not, the industry's fears that the public will shun diesel cars on environmental grounds may be exaggerated. Car makers last week were reporting few signs of customer concern.

PEOPLE

Melbourn promoted at NatWest

A chain of moves in the top management of National Westminster Bank was disclosed yesterday, led by the appointment of John Melbourn, the bank's head of group risk, to succeed Bert Morris as the bank's deputy chief executive.

The reshuffle is one of the most significant changes to the bank's senior roster since Derek Wanless was appointed chief executive in 1992. The changes, which all involve bank insiders, will take place from March 1.

Melbourn, a 56-year-old who was thought to be a contender for the chief executive's job when Derek Wanless was appointed, is one of the bank's most experienced hands, having headed international operations and its relationships with large companies.

Wanless says that Melbourn is "a tremendous banker" who would bring a wide range of experience to the post. Melbourn will work alongside Morris until September, when the latter is due to retire.

Melbourn will retain board responsibility for credit risk, and the handling of large corporate restructurings. But his current deputy, Fred Pointon, has been appointed to the post of general manager of group risk in his place.

A second significant change announced yesterday is the appointment of Phil Wise, the current chief -executive of group services, as chief operating officer at NatWest Markets, the bank's corporate and investment banking arm.

Wise, 45, has worked with Martin Owen, the chief executive of NatWest Markets, before when the men brought together the bank's treasury operations.

Like other securities houses, NatWest Markets had a good year amid buoyant bond and equity markets. Wanless has signalled that the bank is considering ways of building on its investment banking business to help raise revenues.

NatWest Markets' two senior managing directors, Roger Byatt and John Howland-Jackson, have been appointed deputy chief executives. Wise will be succeeded at group services by Trevor Blackler, general manager of UK branch business. Stuart Chandler, general manager for human resources and strategic development, has been appointed to the new post of deputy chief executive for UK branch business with responsibility for technology and human resources.

Finance moves

■ Charles Buckley, Richard Cotton, Jeremy Cowdrey, Edward Harley, Alan Sinclair, Peter Spiller and Anne West have been appointed partners of CAZENOVE & Co.

■ Roger Drayton, formerly head of group treasury services and money markets at Midland Montagu, has been appointed group treasurer at The CO-OPERATIVE BANK.

■ Stewart Edgar and Nicholas Pitt-Lewis have been appointed to the board of FOREIGN & COLONIAL MANAGEMENT.

■ Andrew Brandler and Alasdair Cleghorn have been appointed directors J HENRY SCHRODER WAGG & Co; they move from Fieldstone Private Capital Group.

■ Christopher Fry, formerly md of Hogg Robinson Benefit Consultants, has been appointed sales and marketing director and to the board of HOGG ROBINSON.

■ Howard Evans, a partner at accountants Price Waterhouse, has been appointed finance director of chemicals company Courtaulds. He has had 10 years' involvement with Courtaulds at PW and has been in charge of the group's audit for the past year.

Evans replaces Michael Pragnell, who becomes director responsible for Courtaulds' new polymer products division. He spent less than two years in the job, taking over in July 1992 from Richard Lapthorne who went to British Aerospace; previously he was responsible for Courtaulds' coatings activities.

The reshuffle is the result of the regrouping of the company's activities into three business areas from April 1. As part of the reshuffle, current coatings and Far East director Eryl Morris becomes development director, responsible for planning, development, research and technology, and Neville Petersen, currently chief executive of European coatings activities, joins the board in charge of coatings activities worldwide, except the Far East.

■ "From baked beans to counting beans," is how Philip Powell describes his latest career move.

Powell, 41, starts on Friday as the Central Statistical Office's first director of marketing in a move that underlines the CSO's determination to make its numbers pay under the Australian Bill McLennan.

A marketing professional since he left the University of East Anglia with an economics degree, Powell's most recent job was with the Cow and Gate baby food group. Before that he was in New Zealand where he did some work for Heinz.

But Powell maintains that "maximising the value of the CSO's statistics as a product" will not be such a departure from the past. Statistics have become increasingly important as a tool of marketing in recent years. His goal now is to see how they can be packaged and made more user-friendly – at a price, of course – although those numbers regarded as a public good will still be available to the press.

■ Lyndon Bolton, 57, managing director of the Dundee-based Alliance and Second Alliance investment trusts, has signalled his retirement after 31 years with one of Britain's biggest self-managed investment trust groups.

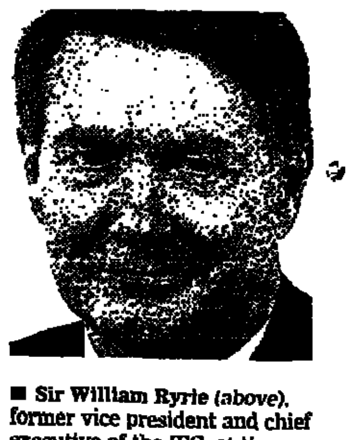
The Alliance trusts, which are over 100 years old, have always kept a low profile. Management expenses are the lowest in the industry and a single-minded concentration on investment performance resulted in the winning of The Sunday Telegraph investment trust group of the year award for three years in a row.

The change-over is not being hurried. Gavin Suggett, 49, who joined in 1973 and is Bolton's deputy, has been appointed joint managing director and will take over sole responsibility in April 1995. Bolton, a non-executive director of TSB and General Accident, will not remain on the board when he retires. William Berry, senior partner of Edinburgh solicitors Murray Beith & Murray WS, has been appointed a non-executive director of the two trusts, replacing Sir Douglas Hardie.

■ British Telecom, the Bank of England and now the British Broadcasting Corporation. Sir David Scholey, chairman of S G Warburg, is joining the board of yet another pillar of the establishment. Sir David is one of two new part-time governors of the BBC. Along with Janet Cohen, a novelist and director of Charterhouse Bank, he joins the BBC on March 1 for a five-year term.

The two merchant bankers fill the gaps left by Baroness James of Holland Park, the well known crime novelist, and Keith Oates, a managing director of Marks and Spencer who stepped down last July. The new appointments complete the complement of BBC governors.

Non-executive directors



■ Sir William Ryrie (above), former vice president and chief executive of the IFC, at the COMMONWEALTH DEVELOPMENT CORPORATION and at W S ATKINS.

■ Sir William Barlow, president of the Royal Academy of Engineering and former chairman of BICC, at CHEMRING GROUP.

■ Geoffrey Maddrell, chief executive of ProShare, at MACDONALD MARTIN DISTILLERIES; he is expected to become chairman on the retirement of David Macdonald, who nevertheless remains on the board in a non-executive capacity.

■ Richard Angel has retired from WHATMAN.

■ Paul Gaumnitz at ARTHUR SHAW & COMPANY.

■ Sir Julian Oswald, former First Sea Lord, and Charles Woodward, a former chief executive of British Airways Pensions, at MGM ASSURANCE.

■ Peter Harrop, chairman of Kalamazoo, at PLASMEC.

Unhappy returns

Elroy Dimson and Paul Marsh warn that many companies are in danger of underinvesting

Over the last few years, real interest rates and inflation have fallen in most leading industrialised countries, while stock markets have climbed to new peaks.

How have these changes in capital market conditions affected the cost of capital? More important, have companies fully adjusted to this brave new world?

For most companies in most countries, the cost of capital has fallen. Yet when considering new investment projects, many are still living in the past, and seeking a required rate of return (RRR) which is simply too high.

By ignoring the worldwide fall in the cost of both debt and equity capital, there is a real danger that these companies will underinvest, or wait too long before embarking on important projects.

This could seriously affect their competitive position. The biggest losers will be companies whose capital budgeting systems are the least responsive to changes in market conditions.

Underinvestment would be particularly ironic in today's market conditions.

Stock markets have risen partly because of the lower RRR which investors are now demanding. If companies ignore this when appraising their own investments, this would not only be inconsistent, but would reflect a lack of shareholder orientation.

Markets have also risen because of the better profits outlook and the increase in profitable investment opportunities. Companies which underinvest and fail to exploit these will find their share prices prove unsustainable.

Part of the problem is that managers are often unclear about the effect capital markets should have on their investment decisions. There is too much focus on accounting systems, and too great a rigidity in project appraisal criteria. As a result, it can be difficult to ensure that an organisation is using the right cost of capital in the right way.

This problem is not new. Some years ago, an organisation which was investigating underinvestment in the UK initiated an informal survey of capital budgeting procedures used in large British companies. An important question was, what level of return on capital was required for a project to be regarded as acceptable.

Based on the first batch of responses, it became clear that the "hurdle" rate of return ranged from less than 10 per cent to 40 per cent or more.

A partial explanation for this puzzlingly wide spread was provided by the next company approached. Here, the finance director asked for clarification. What, precisely, was meant by required return? Was it the accounting rate of return, or the discounted cash flow rate? Was it the return on capital or on equity? Was it the real or the nominal return? The pre- or post-tax return? And for what time period and level of risk?

At this point, the researcher realised that he would need to re-interview all his previous respondents to ask them what they had meant.

Clearly, asking "What is your required rate of return?" can produce varied responses. In the debate on whether companies are demanding too high a return on capital, it is crucial to define what we mean by the RRR.

Investment projects, by definition, involve spending money "up front" in the hope of a financial return later. Best practice in terms of project appraisal involves estimating both the initial costs and expected future cash flows, and then discounting these at the appropriate RRR to determine whether the investment adds value for shareholders.

The initial investment in any project clearly has a cost, namely the expected return which would otherwise have been available from investing the money in the capital markets over the same period and at similar risk. The RRR is the opportunity cost of capital for a stock market investment that is comparable to the proposed project in terms of maturity, risk exposure and tax treatment.

Taking each of these factors in turn, a project's maturity might broadly be thought of in terms of the classifications used by the Financial Times for fixed interest securities, namely up to five years, five-15 years, or more than 15 years.

Second, the project's risk exposure may be visualised on a continuum from riskless government bonds to equities (or even a leveraged position in equities).

And third, the project's cash flows should be estimated after deduction of corporate tax, which in many European countries, including the UK, incorporates prepayment of personal tax on dividends.

For a risk-free investment, a rough guide to the required return on a five-15 year investment is the yield to redemption on index-linked or conventional government bonds of appropriate maturity. In the UK, after deducting personal tax and rounding to the nearest whole number, this is currently some 2 per cent in real terms or 5 per cent in money terms. This implies an inflation rate of around 3 per cent per annum.

Risky investment can only be justified if it commands a risk premium. Historically, equities have generated an average annual real risk premium of approximately 8 per cent compared with government bonds. The typical company uses debt as well as equity in its capital structure, however, which makes its shares more risky than its underlying assets.

A typical risk premium for a company's underlying investments would therefore be lower, say 6-7 per cent after tax.

For an investment project of typical risk, we must add a premium of 6-7 per cent to the real risk-free interest rate of 2 per cent. The required rate of return is around 8-9 per cent in real terms, or 11-12 per cent in money terms. The days of looking for 20 per cent or more are behind us – at least for the moment.

There are naturally differences between the required returns that are appropriate for low risk projects, and those that should be demanded of higher risk proposals. Companies may classify investments according to their risk, and then adjust the cost of capital according to each project's risk attributes. But the starting point for these adjustments should typically be the company's overall cost of capital.

Our contacts with companies suggest that many have not responded sufficiently to falling inflation and lower real interest rates. As a result their managements are demanding an excessive return from new investment projects.

They run the risk of investing too little and too late, and of failing to share fully in the economic recovery.

Professor Elroy Dimson and Professor Paul Marsh are joint editors of London Business School's Risk Measurement Service.

The Treasury's efforts to collaborate more with the world beyond Whitehall are assessed by **Peter Marsh**

Opening up with an eye on confidentiality

When Alan Budd, now chief economic adviser at the UK Treasury, attacked the department 15 years ago for ignoring advice from outside, he was a London Business School economist. Now that he is on the inside he may recall his criticisms as he answers charges today from industrialists that the department is divorced from reality and too secretive.

Budd, who has been at the Treasury since 1991, will be one of four senior Treasury officials addressing a private meeting in London with 70 business executives. The meeting, "Treasury: Villain or Victim?", has been organised by the Whitehall and Industry Group, a charity trying to dismantle barriers between the private and public sectors.

The Treasury, Britain's most important government department, which controls public spending, taxation and interest rates, has for years been criticised for paying too little attention to the world outside Whitehall.

Critics reckon its introverted style has contributed to policy mistakes, in particular the lack of preparedness for the inflationary boom of the late 1980s, the recession which followed and the currency crisis which forced Britain out of the exchange rate mechanism.

That attacks on the Treasury are nothing new is clear from Budd's 1979 comments, made in a speech to the Institute of Economic Affairs. But as the criticism grew during the 1990s, the department tried to recognise its failings, grappling with issues similar to those faced by many private-sector organisations. A leading part has been played by Sir Terry Burns, Treasury permanent secretary, who engaged as a part-time adviser Wendy Pritchard, a consultant specialising in helping organisations to make cultural shifts.

Pritchard was behind recent moves by the Treasury to reduce the number of top posts and improve the effectiveness of decision-making, while Budd – who came to the Treasury from Barclays Bank, where he was economic adviser – has put into practice some of the prescriptions in his 1979 address.

What Alan Budd said in 1979

"The Treasury, isolated from outside views, can give mistaken advice and is liable to stick to it long after its error should have been recognised"

He has set up a committee of business people who meet three times a year to relay views from industry to the department's economic forecasters. He also oversees the work of the Treasury's panel of seven (now six) "wise men" – outside economists who supply policy advice and forecasts to the Treasury.

Budd has also encouraged Treasury officials to be more receptive to thinking from outside Whitehall. Charlie Bean, an economist at the London School of Economics who works part-time at the Treasury, says Budd has been "an outstanding success" in "encouraging the flow of ideas into the Treasury".

Roger Humber, director of the Housebuilders Federation, a trade body for construction companies, has noticed a difference, too. In the late 1980s, he says, the Treasury spurned the federation's efforts to promote a dialogue about economic trends. "The Treasury view was that we [housebuilders] were responsible for inflation – they wanted nothing to do with us." But around 1992, says Humber, "the Treasury became more interested in hearing our views".

Talking to outsiders does not always go smoothly. Treasury officials fear that they may let slip some piece of policy advice which government ministers would rather keep to themselves.

Greg Marston, director of the Office of Public Management, a consultancy specialising in public-sector organisation, recognises that because of confidential policy discussion, there are limits to how much officials can open up. "But because the Treasury is spending our [taxpayers'] money they should recognise the public has a right to inquire how it manages itself."

Budd says the principle that officials advise ministers in confidence must be safeguarded. "The challenge is to ensure that the analysis on which such advice is based reflects the best possible sources of knowledge . . . I think the Treasury is more exposed to independent advice than ever before."

The changes have not satisfied everyone. Bill Martin, UK economist at Swiss bank UBS and among the Treasury's fiercest critics, thinks it "is still too secretive".

Operetta

A very British 'Pinafore'

The one puzzling thing about Sunday's concert performance of this "Entirely Original Nautical Comic Opera" was why it should be in the London Philharmonic's "International Series". The cast was British as could be, and the conductor too, and most of the (sensibly reduced) orchestra.

To other questions there were obvious answers. Why do a concert *Pinafore* at all? Because it will fill the Royal Festival Hall, if it has enough singers with Names. Why should singers who have earned their Names in grander music bother with G&S? Because they think it will be fun, and it is nice to sing to a happy audience. How can they be so sure that the audience will be happy? Because nearly all the latter have it heard it many times before – they have probably sung in it; and if few modern singers with Names can mimic the vintage D'Oyly Carte style, their modern Personalities should make piquant compensation for any falling-away from orthodoxy.

And so they did, and it *was* fun. Roger Norrington conducted the piece at a brisk clip. Though three of the announced soloists had dropped out of play, their replacements – just slightly lesser Names – gave full measure: Neil Jenkins as a fervent, upstanding Ralph, David Thomas adapting his Handelian bass manners to ripe Edwardian melodrama for Dick Deadeye, Marilyn Hill Smith a model of D'O.C. diction and innocence as sweet Josephine.

Her sire Captain Corcoran was David Wilson-Johnson, her nearest competitor in the diction-stakes, artful about underlining any political innuendo with a newly up-to-date echo (as Gilbert's lines seem regularly to have). The Butterfly and the First Lord of the Admiralty were Sarah Walker and Benjamin Luxon, both of them emitting Personality on an expansive, shamelessly appealing scale. The London Philharmonic Choir, reduced but energetic, sang the crew of the *Pinafore* and the sisters, cousins and aunts with a will.

By sheer talent and cunning, Gwion Thomas almost turned the Boatswain into a major character; and in the still smaller roles of Hebe and the Carpenter, the young mezzo Ruby Philogene and bass Jonathan Best were disproportionately good. All in all, the performance was engaging enough to silence quibbles. I append one plea nevertheless, about diction.

Not unlike Walton's *Façade*, the G&S operettas make great play with setting Gilbert's consciously clever, scansion-heavy texts to deceptively simple music with an easy flow. The apparent clash between those things, and the witty accommodation that Sullivan engineered between them, is the heart of the matter. No doubt the old D'O.C. company preserved its authentic" stagings too long – but its practised, ultra-lucid, front-of-the-mouth delivery still seems the best way of bringing G&S to full comic life. That is vanishing now. We shall come to miss it.

David Murray

Television/**Christopher Dunkley**

Funny icons of youth

Comedy, we are told with irritating frequency, is to the 1990s what rock and roll was to the 1960s. Comedians, it is said, have taken over from rock stars as youth icons. Stand-up comedy, they claim, used to be a low-key occupation for journeymen, but today's young comedians are stars: look at Paul Merton in all those soap commercials. Once it was the Rolling Stones who represented rebellion and the rejection of the older generation's values, but today it is Steve Coogan, Christopher Morris and the rest of the team from *The Day Today*.

It is drivel, of course: part of the naive arrogance of the younger generation which always thinks it has just invented everything "shocking" from free love to loud music. They believe Merton and Ben Elton are unprecedentedly big stars because they do not realise how large Max Miller and George Formby loomed in the public imagination of their grandparents' generation. They honestly believe that there is something quite new and different about the success of French and Saunders because they are too young to remember how Morecambe and Wise bestrode the nation via television in the 1960s. Tell them that M & W used to attract audiences of 20 million and more, as did *Steptoe And Son*, ratings much larger than any comedian gets today, and either they refuse to believe you or they say "Ah, well, that was in the days before the audience was split by all these new channels", overlooking the fact that *Coronation Street* is still able to pull in more than 20 million today.

There may have been a brief period when London's Comic Strip was brand new, before *The Young Ones* reached the screen, while Alexei Sayle was still doing "'Allo John Got A New Motor?" with hysterical energy (last week on BBC2's *All New Alexei Sayle Show* he was sending up his own youthful performance of that rap satire as though it had been some sort of Vera Lynn number; he is becoming sadly mellow) when only a small band of cognoscenti realised what was happening. For a few months, while the spore remained underground, perhaps there was some strength in the Rolling Stones analogy; had she known about it, your mother wouldn't have liked it.

But today? The comedy rebels of the underground burst through the surface long ago to be assiduously cultivated by television's head gardeners. Some of them are proving perfectly acceptable successors to the older generation of comedians. Harry Enfield is more than a match for Dick Emery, though not notably more revolutionary. Newman and Baddiel operate at much the same intellectual level as Cannon and Ball. Trying to decide whether Reeves and Mortimer are funnier than Little and Large is like trying to decide which is more sophisticated, steamed cabbage or boiled sprouts.

In *The Man From Auntie* on BBC1 on Thursday nights Ben Elton is showing that he can easily abandon the tedious political correctness with

The new generation of comedians is not rebellious or anarchic but has an inward-facing fascination with the mass media

which he used to curry favour from crowds of lager swilling students, and deliver sustained comedy monologues which are worthy of Dave Allen. True, Allen has a tougher line on religious and what you might call philosophical subjects, as you can currently see in his Monday night repeats on ITV. But Elton can build a bigger head of laughter in those increasingly frenetic attacks that he launches on – say – "crap design". Last week's onslaught, beginning with the all-metal teapots in motorway service stations, which can only be picked up after the tea has gone cold, was a highly professional and very funny piece of work.

However, the idea that Elton represents for the 1994 teenager what Brian Jones represented for us in 1964 is laughable. Or it would be were it not so sad. What it indicates is not the strength of television comedy but the weakness of rock music: after the rebel years of the Stones, then androgyny, punk and grunge, where was there to go? The supposed wickedness of today's youth programmes such as *The Word* on C4 on Friday and Saturday nights is so pathetic that it is easy to see why young people would be keen to find something else with which to identify. Comedy might serve if there really was something stirring going on, but the enthusiasm which Elton and some of his contemporaries bring to talk of "poos" and condoms just does not seem very outrageous these days.

The chief characteristic of much of the new generation of comedians is not any sort of rebelliousness, let alone dangerous anarchy, but an inward-facing fascination with the mass media. The main strength of *Absolutely Fabulous* is the accuracy with which Jennifer Saunders' scripts have satirised the world of glossy women's magazines and PR parties, and the eclecticism of excess – booze, drugs, food, sex, new age crazes, clothes – among those who throng the fringes of this little universe. The mistake of the second series has been to enlarge the role of the boringly square daughter, Saffron, who was originally just a foil to her mother and Patsy; and to step more and more often outside that claustrophobic little world of Bollinger, poser phones, and bikini-line waxing. Tomorrow, we are told, Edi and Patsy are off to Morocco. Better, surely, to have mounted an expedition to Harvey Nicks.

Even Sayle, who has tried to distance himself from the "alternative" comedy brigade, though working with virtually all of them, frequently looks inwards to the mass media for laughs. Last week he told us that Sarah Dunant of *The Late Show* had been taken down the nick for a good kicking because the police profoundly disagreed with something she said about the poetry concrète of John Cage. He ended the programme with a sight gag, appearing in consecutive shots wearing ludicrously different outfits, flowery trousers and so on, and complaining "I'm sure I didn't have these on in the last shot", a joke concerned entirely with the concept of continuity.

As for *The Day Today*, they not only limit themselves to jokes about the mass media, but specifically to jokes about news and current affairs programmes. Since its strength comes from the precision with which they parody the manners and mannerisms of foreign affairs reporters, news anchormen and so on it is difficult to convey the feel of the programme.

Though standards vary from series to series (*Abfab 2* may improve but so far it is sadly inferior to *Abfab 1*) and even from week to week, there is surely little doubt that many of the programmes coming from this new generation of comedians are an improvement on much of the old stuff. Channel 4's new American series *Home Improvement*, and ITV's new vehicle for Penelope Keith, *Law And Disorder*, remind us how lazy, repetitive and predictable the conventional sitcom has become. There is just the one gag in *Home Improvement*: dad, who presents a DIY television series, is a complete disaster when it comes to doing anything around his own home. And the series trundled out for Penelope Keith these days remind you of those boards at fairgrounds with holes to stick your head through: you just provide the face.

So the younger comedians are wafting a bit of fresh air into the system, which is surely no more than they should be doing. It would be exciting if they were leading a revolutionary movement, intent upon some radical form of cultural subversion, infiltrating the dusty corridors of television comedy, taking with them an army of young viewers ready to turn things upside down. However, the evidence on screen suggests that most of them are about as rebellious as Harry Worth or Benny Hill, and most of the programmes coming our way are approximately as unsettling as a Bing Crosby musical. Even today Lenny Bruce really would look revolutionary on television – and he has been dead for 28 years.

Joanna Lumley and Jennifer Saunders in 'Absolutely Fabulous': better off in that claustrophobic little world of Bollinger, poser phones and bikini-line waxing

Opera North stars in the South

David Murray reviews 'Gloriana' at Covent Garden

Just what 'Gloriana' requires: Josephine Barstow as a marvellous monster of grand feeling and 'ressentiment'

With its production of Britten's unlucky Coronation opera *Gloriana*, Opera North invaded Covent Garden for the first time on Monday. (The company has done several trade-offs with the ENO, but it was never exactly "Opera North" that we saw at the London Coliseum.) Its moment was well chosen, and so was the piece. This *Gloriana* – conducted by Paul Daniel, directed by Phyllida Lloyd, designed by Anthony Ward – establishes a new stature for the opera, does that with a whole, committed company, and in so doing reminds us of a path the Royal Opera might have taken 20-odd years ago, but didn't.

First, the opera itself (one more London performance on Thursday). By common consent, it bears the restrictive marks of its 1953 origin: semi-official status as "the Coronation opera", a felt need for pageantry and Englishry – not then Britten's natural inclinations – and a resultant compromise between "public" music and the intimate kind of music-drama that the composer preferred. Though the crypto-romantic story of Queen Bess and her maverick Earl of Essex (in William Plomer's libretto after Lytton Strachey) seemed to offer both-way opportunities, the final score shifts from foot to foot between Festival of Britain pomp, fey neo-Elizabethan lyricism and darker post-tonal kicks.

If those elements are not seamlessly melded in the Opera North show, they are held in a fine, persuasive balance. Ward's stark, effective sets fill up the Royal Opera stage handsomely, glowing in Rick Fisher's light-designs, and his costumes are splendid. Miss Lloyd's staging is clean, cogent, bold, exactly to the purpose: after this production, her Opera North *L'Etoile* and her London play *Six Degrees of Separation*, I should trust her with *anything*. Daniel and his orchestra search deep into the score, and bring it up in high profile with dense, pointed force. The Opera North choruses act as compellingly as they sing.

Above all there is Josephine Barstow's Elizabeth I, a marvellous *monster of grand feeling and ressentiment*, just what *Gloriana* ideally requires. As usual, she gives us something unique and memorable; if she had been granted a naturally glamorous voice too, she might not have striven (who knows?) to become the great actress-musician that she is. Her Essex is Thomas Randle, whose macho vocal thrust may be inapt for the haunted "Second Lute Song" but contributes hugely to his developing character, recklessly wild and truculent.

On this page last December, Max Loppert praised the production and its principals in detail after its Leeds premiere. I should add only some tributes to Paul Nilon's elegantly sung Spirit of the Masque (which is choreographed to firm dramatic purpose by Kate Flatt, like the courtly dances later); Hilary Jackson's diamond-cut lady-in-waiting; and David Gwynne's ripe Ballad Singer.

Opera North cultivates a regular company of such artists, whereas the Royal Opera nowadays keeps only a few third-leads and comprimarios on contract – thus condemning itself (unlike the New York Met, or La Scala or the Vienna Opera) to largely bought-in casts, and leaving the ENO as the metropolitan house where the best British singers can find their feet and develop. That division strikes me as artificial and short-sighted. Just why should London's "premier" opera house be content to serve as a profitable stop for international stars in transit?

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The Russian conductor Gennadi Rozhdestvensky has withdrawn from the new Royal Opera production of Massenet's *Chérubin* because of artistic differences, writes Antony Thorncroft. The romantic opera will open, as scheduled, on Monday, February 14 with Mario Bernardi in the pit.

A busy work schedule limited Rozhdestvensky's appearances at rehearsals and some of the young singers in the production, which is directed by Tim Albery, found him difficult to work with. Mario Bernardi has conducted the work at the Santa Fè Opera.

Original *Gloriana* sponsors: Nottinghamshire County Council and the Britten Estate.

INTERNATIONAL ARTS GUIDE

BERLIN

BERLIN FILM FESTIVAL
The festival opens tomorrow with the German premiere of Bernardo Bertolucci's Little Buddha, and features more than 650 films over the following 10 days.
Films entered in the competition include Ladybird Ladybird (Ken Loach), In the Name of the Father (Jim Sheridan) starring Daniel Day Lewis, The Remains of the Day (James Ivory) starring Emma Thompson, an Aids film by Jonathan Demme entitled Philadelphia, Fearless (Peter Weir) with Jeff Bridges and Isabella Rossellini, and an Ayckbourn-inspired marathon by Alain Resnais entitled Smoking/No Smoking. Outside the competition, there will be a showing of Carlito's Way (Brian de Palma) starring Al Pacino. Retrospectives are devoted to director/actor Erich von Stroheim and Sophia Loren. Booking: Europa-Center first floor or Kino International. Information and programme details available from Berlin Festival, Budapesterstrasse 50, Berlin (tel no 030-254890).

BORDEAUX

Grand-Théâtre Sun afternoon: Karl Anton Rickenbacher conducts revival of Roberto de Simone's production of Die Zauberflöte, with cast headed by Gilles Cachemaille and Donna Brown. Repeated Feb 15, 18, 21, 23, 27 (5648 5854)

COLOGNE

Philharmonie Tonight: Arditti Quartet and friends play works by Schnittke and Schumann. Next Wed: Martha Argerich and Gidon Kremer. Feb 18: Simon Rattle conducts Orchestra of Age of Enlightenment. Feb 23: José Carreras (0221-2801)
Opernhaus Tonight, Fri, next Wed: James Conlon conducts Harry Kupfer's new production of Shostakovich's The Nose. Feb 18: revival of Fidelio with Ben Heppner as Florestan (0221-221 8400)
Schauspielhaus This month's repertory includes Günter Krämer's radical version of Fiddler on the Roof, Chekhov's The Seagull and Shakespeare's As You Like It (0221-221 8400)

DRESDEN

Dresden this weekend marks the anniversary of the destruction of the city by Allied bombers on 13 Feb 1945. Colin Davis conducts memorial concerts in the Kreuzkirche on Sun and Mon. The programme at the Semperoper includes Der Rosenkavalier tonight with Felicity Lott, a performance of Winterreise by Peter Schreier accompanied by Christoph Eschenbach on Sun, and Fidelio conducted by Colin Davis on Feb 20, 24 and 27 (0351-484 2323). Michel Plasson conducts concerts performances of Carmen at the Kulturpalast on Feb 19 and 20 (0351-486 6666)

FRANKFURT

Oper The main event this week is the first night on Sun of a new production of Janacek's From the House of the Dead, conducted by Sylvain Cambreling and staged by Peter Mussbach (repeated Feb 16, 17, 19, 20, 23, March 6). Repertory also includes Il barbiere di Siviglia and William Forsythe's ballet Alien Action (069-236061)
Jahrhunderthalle Hoechst Fri: Christian Zacharias piano recital. Sat: Staatsoper Posen in Flotow's Martha. Sun, Mon, Tues: Rudra Béjart Lausanne in a programme of Béjart choreographies (069-360 1240)

HAMBURG

Staatsoper Tomorrow, Sun: La boheme with Veronica Villaroel as Mimi. Fri, Sat, Mon: new Ravel ballet trilogy, choreography by John Neumeier (repeated Feb 18, 19). Tues: Madama Butterfly with Miriam Gauci (040-351721)

LEIPZIG

Opernhaus A new production of Don Giovanni opens on Sat, staged by John Dew and conducted by Jiri Kout (repeated Feb 18, 27, March 5, 24). Repertory includes Boris Godunov, Werther, Elektra and two Uwe Scholz ballets (0341-291036)
Gewandhaus Saxophonist Steve Lacy gives a jazz concert tomorrow. Montserrat Caballé gives a recital on Sun. The next Gewandhaus Orchestra concerts are on Feb 17 and 18 (0341-713 2280)

LILLE

Nouveau Siècle Tonight: Laurent Cuniot conducts Orchestre National de Lille in works by Schumann, Liszt and Mendelssohn, with piano soloist Dimitri Vassilakis. Next Tues: Arnold Oestman conducts Mozart, Wiren and Haydn (2012 8240)
Opéra Sat: Jean-Claude Casadesus conducts first night of Daniel Mesguich's production of Un ballo in maschera, with cast headed by Vincenzo La Scola, William Stone, Stefka Evstatieva and Linda Finnie. Repeated next Mon, Wed, Fri and Sun (2012 8240)

LYON

Opéra Tonight, Fri, Sun: Louis Erlo's arrangement of Les Contes d'Hoffmann (tel 7200 4545 fax 7200 4546)
Auditorium Sat: Hans Graf conducts Orchestre National de Lyon in works by Weber, Strauss and Prokofiev, with horn soloist Radovan Vlatkovic(7860 3713)

MARSEILLE

Opéra Feb 15, 18, 20, 23: Henry Lewis conducts Paule Goltier's production of Mefistofele, with cast headed by Sergey Kopchak, Lando Bartolini and Lyuba Kazarnovskaya (9155 0070)

MONTE CARLO

Salle Garnier Tonight, Fri, Sun afternoon: Salvatore Accardo conducts Dieter Kaegi's production of Cosi fan tutte (9216 2299)

MUNICH

Gasteig Tonight: Théâtre de l'Atelier Paris presents Ionesco's 1962 play Exit the King. Tomorrow, Fri: Kurt Sanderling conducts Bavarian Radio Symphony Orchestra in symphonies by Mozart and Bruckner. Sun morning, next Mon, Wed and Fri evenings: Gerd Albrecht conducts Munich Philharmonic Orchestra in works by Peter Ruzicka, Mahler and Pettersson. Sun evening: Edita Gruberova sings operetta (089-4809 8614)
Staatsoper Fri: Charles Mackerras conducts Le nozze di Figaro. Sat, next Wed: Peter Schneider conducts Tom Cairns' new production of Un ballo in maschera. Sun: La Cenerentola with Cecilia Bartoli (repeated Feb 15, 18, 22 and 25). Next Mon and Thurs: John Cranko's ballet The Taming of the Shrew (089-221316)
Herkulessaal der Residenz Feb 21: Alban Berg Quartet. Feb 22: Labeque Sisters. Feb 23: Marjana Lipovsek song recital. Feb 24: Maurizio Pollini. Feb 25: Gidon Kremer and Martha Argerich. Feb 28: Julian Bream (089-299901)
● Munich is in the midst of its annual carnival, known as Fasching. Much of the official programme is centred on Prinzregententheater (089-2916 1414) and Deutsches Theater (089-5523 4360), which have a variety of special concerts, dance galas and entertainment shows. Fasching runs till Feb 15.

OSLO

Konserthus Fri: Giuseppe Sinopoli conducts Olso Philharmonic Orchestra in Mahler (2283 3200)

STOCKHOLM

Royal Opera Tonight: Pelléas et Mélisande . Tomorrow: La traviata with Lena Nordin as Violetta. Fri, next Mon and Tues: Glen Tetley's ballet The Tempest. Sat afternoon: Lohengrin with Gösta Winbergh in title role (tickets 08-248240 information 08-203515)
Konserthuset Tomorrow, Fri: Okko Kamu conducts Royal Stockholm Philharmonic Orchestra in works by Rehnqvist, Bartok and Beethoven, with piano soloist Olli Mustonen (tickets 08-102110 information 08-212520)
Berwaldhallen Fri: Gustav Kuhn conducts Gothenburg Symphony Orchestra in Beethoven's Fourth and Fifth Symphonies. Next Tues: Per Engström conducts Swedish Radio Symphony Orchestra, with mezzo Annika Skoglund (08-784 1800)

STRASBOURG

Palais de la Musique Tomorrow, Fri: Vaclav Neumann conducts Strasbourg Philharmonic Orchestra in works by Dvorak, Saint-Saens and Brahms, with cello soloist Antonio Meneses (8852 1845). Feb 16-20 in Théâtre Municipal: Die Fledermaus (8875 4823)

ARTS GUIDE
Monday: Berlin, New York and Paris.
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.
Wednesday: France, Germany, Scandinavia.
Thursday: Italy, Spain, Athens, London, Prague.
Friday: Exhibitions Guide.

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MONDAY TO FRIDAY
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MONDAY
Super Channel: FT Reports 1230.
TUESDAY
Euronews: FT Reports 0745, 1315, 1545, 1845, 2345
WEDNESDAY
Super Channel: FT Reports 1230
THURSDAY
Super Channel: FT Reports 2130
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FRIDAY
Super Channel: FT Reports 1230
Sky News: FT Reports 2030
SATURDAY
Sky News: 0330; 1330
SUNDAY
Super Channel: FT Reports 2230
Sky News: FT Reports 1730; 0430

Ian Davidson

Not as bleak as it looks

Some essential truths about Northern Ireland are becoming clear

The London and Dublin governments are to give a new push to their initiative for peace in Northern Ireland. In their joint Anglo-Irish declaration, launched two months ago, they held out the explicit possibility of eventual unification of the two halves of Ireland, if that was what the people of Ireland wanted. But the essential precondition for setting this initiative in motion was that the IRA terrorists must first declare a ceasefire.

That precondition has not been met. The IRA has not rejected the offer; but the fact that it has not stopped the bombing and shooting suggests that a permanent ceasefire is not very likely. The UK and Irish prime ministers meet next week to see where they go from here; it looks as though they need to think again.

The rationale for the December declaration was a belief that the IRA was tired out after 25 years of fruitless terrorism, and might give up. Yet even if the terrorists are tired, it requires great faith to conclude that they can now be converted to democracy. And even if most of the terrorists were prepared to give up, Whitehall officials seem to fear that they may be held hostage by the out-and-out extremists.

If the IRA does not agree to give up terrorism, the two governments must rethink their initiative from top to bottom. Sir Patrick Mayhew, Northern Ireland secretary, has said Britain will press ahead with new moves, including devolved local government in the province; perhaps it may. But a political process that leaves out the hard republicans, and perhaps the hard unionists, will be a meagre affair beside the comprehensive agenda of the December declaration.

Yet the strategic position may be less bleak than it looks, because various parts of the truth are now being made plain. First, the declaration gives explicit recognition not just to the undeniable old fact, that Northern Ireland is historically and geographically part of Ireland, but also to the new political fact, that its future will be decided not in London but in Ireland. In the introduction to the declaration, the two governments say their aim is "a new political framework founded on consent"; and a purely British passage says "it is for the people of Ireland alone, by agreement between the two parts respectively, to exercise their right of self-determination, on the basis of consent, if that is their wish". Neither passage can give any comfort to rightwing nationalists at Westminster, let alone to die-hard unionists among Northern Irish Protestants.

Such an explicit recognition by the UK of the legitimacy of the claims of Irish unity

The central problem is with the definition of the concept of consent

(though only by consent) is unprecedented. But the corollary of the principle of consent is that terrorism, so far from advancing the cause of Irish unity, makes it impossible. The very premise of terrorism is a denial of democracy, the total negation of consent. In Northern Ireland, the two communities are too evenly balanced to admit of a victory of one over the other. IRA terrorism cannot lead to a political victory for the nationalists, because the immediate consequence would be more terrorism by extremist Protestants, most probably a civil war.

If the leaders of the IRA were to take up the offer of "reconciliation, leading to a new political framework", that would be wonderful; but it may be too much of a miracle to hope for. If they do not, then the IRA and Sinn Féin will both be politically dead meat. If they reject the opportunities offered by the declaration, they will have forfeited their claim to speak for the people of Ireland; and they will have shown that terrorism takes precedence over politics, and that Sinn Féin is ruled by the IRA, not the other way round.

But whether the IRA says yes or no, the central problem in the declaration is with the definition of the concept of consent. The reason for the terrorism by Catholics and Protestants is that consent is lacking; and even if the terrorism stopped, consent would still be lacking. In fact, there is never likely to be, in our lifetimes, the kind of political majority, either for keeping or for changing the constitutional status quo, which could be counted on to produce a permanent and peaceful settlement of the Northern Ireland question.

The corollary is that the medium-term future of Northern Ireland will be decided not by local parties or local majorities, but by agreement between the governments of Britain and Ireland. Sir Patrick Mayhew professes to rule out any idea of joint authority over Northern Ireland; but in strategic terms, that is precisely what is implied by the Anglo-Irish declaration. When the two governments say their aim is "a new political framework, within Northern Ireland, for the whole island, and between these islands", they are talking about shared authority, almost a *de facto* condominium.

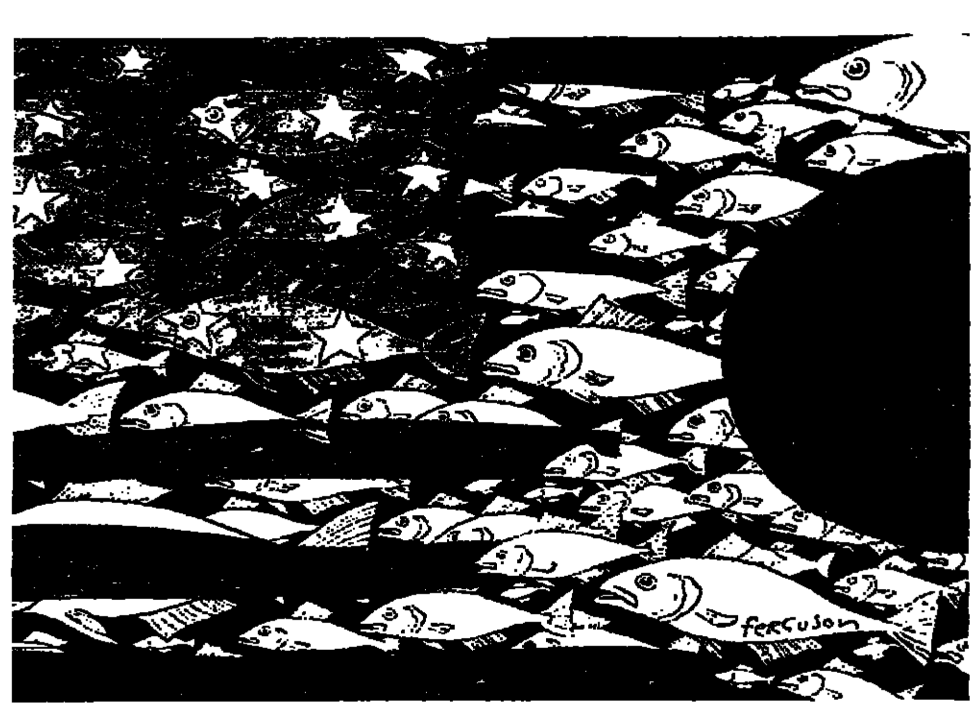
One detailed study* has argued for a *de jure* condominium, through an Anglo-Irish treaty. This would be an extraordinary innovation in constitutional practice, and would have difficulties with the old-timers in the House of Commons. But it would make logical sense, because it would rule out, for ever, the only grounds for terrorism: the hope of total victory by one community at the expense of the other. And it could also make a creative political contribution to the development of inter-state relationships in the context of the European Union.

But if London dare not admit the reality of condominium, at least let us have no more talk of self-determination. We have seen what it has achieved in former Yugoslavia, and we do not need that kind of self-determination in Northern Ireland.

**Northern Ireland: Sharing Authority, by O'Leary, Lyne, Marshall & Rowthorn, IPPR, 30 Southampton St, London WC2. £9.95*

Patrick Harverson examines the inroads made by Japanese securities houses on Wall Street

Minnows swim in fresh waters



In the battle between economic superpowers, investment banking is a business where the US has dominated Japan. Even in Japan's home market, the Tokyo subsidiaries of some of the biggest US securities houses – Salomon Brothers, Morgan Stanley and Goldman Sachs – have established good profit records that some Japanese firms, struggling with the effects of recession, might envy.

While a few big US firms have thrived in Tokyo, their Japanese counterparts have found it difficult to shine on Wall Street, where US houses have always dominated.

The balance may now be changing. Competition from Japan's "big four" securities houses – Nomura, Daiwa, Yamaichi and Nikko – is intensifying. The lucrative mainstream of broking, trading and underwriting of stocks and bonds remains overwhelmingly in US hands, where large distribution networks and established corporate relationships give American firms an edge. But in some niche businesses, Japan's big four have built market share relatively quickly, by applying large amounts of capital and trading skills acquired locally. The Japanese have also piqued their Wall Street rivals by poaching many top traders and bankers with the lure of hefty pay packages.

Daiwa America, for example, has established itself as one of the most profitable players in specialised mortgage-backed securities trading; Nomura Securities International, in little more than three years, has become one of the main participants in the still small business of "program" trading, in which firms execute, usually with computers, large-volume stock trades for US institutions; Nikko Securities International has become heavily involved in the trading of financial futures (contracts for buying or selling securities at a later date); Yamaichi International is developing a presence in specialist equity products such as derivatives and arbitrage (trading in different markets to take advantage of price differences).

In part, diversification has been forced on the big four. Since the early 1990s, the dollar's slide against the yen, the faltering Japanese economy and the volatility of Tokyo share prices have gradually squeezed the business that American subsidiaries of Japanese securities firms traditionally relied upon: selling US securities to Japanese customers and Japanese securities to US institutions.

Mr Stanley Ginsberg, a senior vice-president at Daiwa America, says when demand for dollar assets from Japanese clients began to dry up, "it was clear that the business [in New York] would have to localise ... and that Daiwa America could no longer be a single-service shop".

Other Japanese firms reached a similar conclusion: the answer has been to "Americanise" their US subsidiaries. At Daiwa America, one of the first moves was to bring in Mr Andrew Stone, a former Salomon Brothers mortgage-backed securities trader, who hired a team of top professionals in the field from the best Wall Street firms such as First Boston and Merrill Lynch. Daiwa has pioneered new products which package non-traditional mortgage assets, such as loans secured on mobile homes, into securities.

Daiwa has subsequently added futures trading and equities arbitrage to its mortgage backed securities business. Nikko Securities International has followed many US firms and diversified into the fast-growing Latin American investment banking market, where it is underwriting yen-denominated bonds issued by local companies. "This is a US firm, so we should act like a US firm," says Mr Ryosuke Suzuki, chairman of Nikko's New York operation.

The strategy of concentrating on niche businesses is already paying dividends

Nomura has gone furthest in reshaping its US subsidiary. The change started in 1989, when Mr Max Chapman, former president of US investment bank Kidder Peabody, was appointed co-chairman of Nomura Securities International, the Japanese firm's US affiliate. He was the first American to fill such a senior post at a big four firm.

When Mr Chapman arrived, "this company was essentially a branch office, a sales office, for Nomura Tokyo", says Mr Joe Schmuckler, the head of equity derivatives at NSI, who joined the new chairman from Kidder. As well as overhauling the firm's management, Mr Chapman encouraged the development of swaps and other derivatives trading, asset management, mortgage-backed securities, and international equity and bond underwriting.

The common thread through all the changes at the big four has been a shift in business away from buying and selling securities on behalf of customers towards trading the firm's own money. Tokyo head offices have therefore had to allow the US operations greater freedom.

There are still limits, however, on the autonomy the parent companies are willing to grant. When Nomura's Mr Chapman wanted to buy a $10m stake in a small Latin American bank, a region he believes crucial to NSI's future, Tokyo refused his request.

Any nervousness on the part of Japanese parent companies could be explained by the experience of the mid-1980s, when the big four tried to challenge Wall Street firms in the lucrative business of underwriting US company securities.

The Japanese failed then to make a big impact because they lacked a network of salesmen and brokers, established corporate relationships and investment banking skills. They were also used to handling straightforward but high-volume transactions. The big four eventually realised, says Mr John Keefe, securities industry observer with the Keefe Worldwide consultancy in New York, "the techniques that work in the Tokyo markets – mass offerings of low-price services – are out of date for the US, where there is more of a premium placed on offerings tailored to the individual issuer and investor".

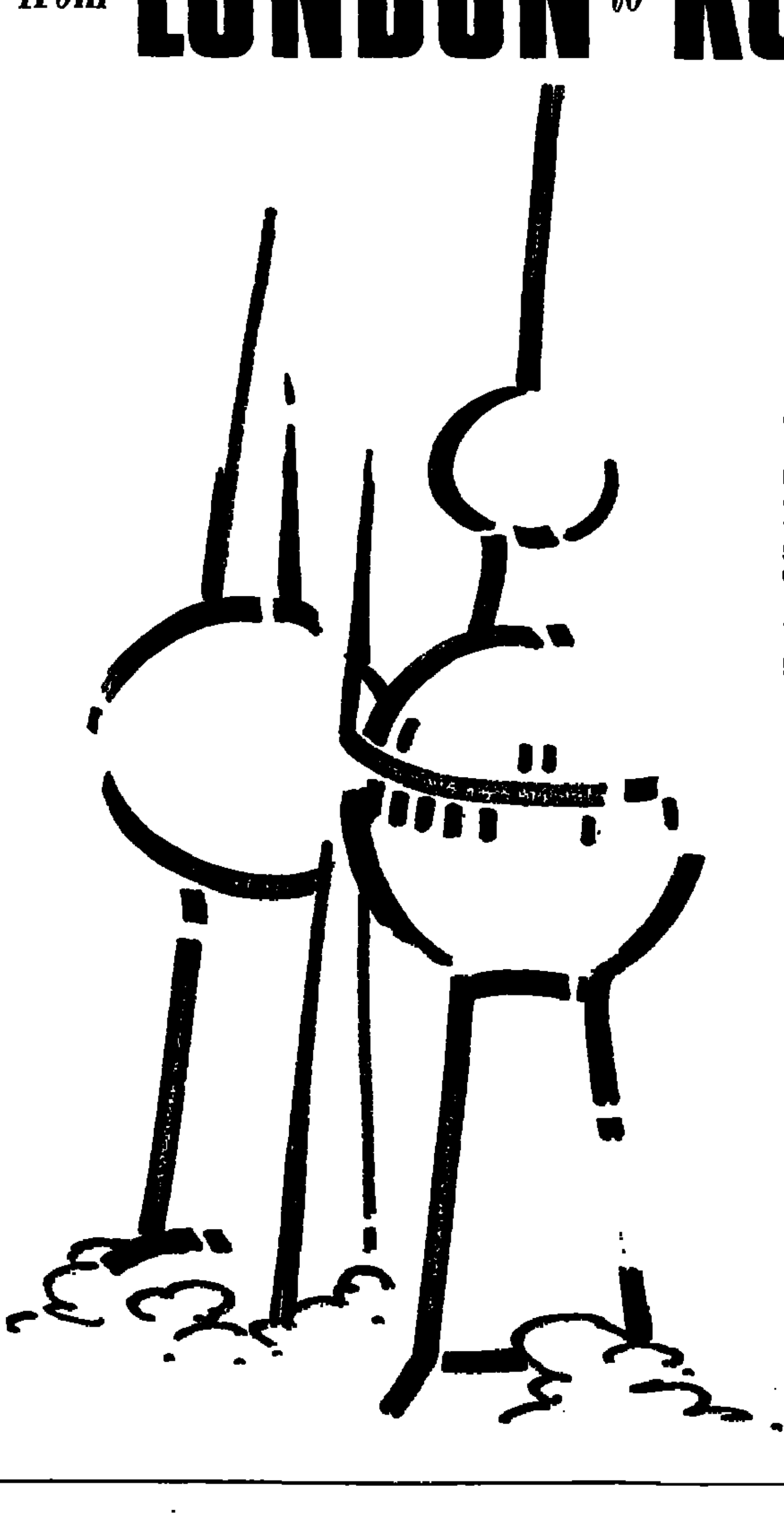
The Japanese securities firms in New York rule out attempting to go down that route again. Mr Schmuckler of Nomura says: "We've recognised that it's going to be a tall order ... for us to be looked at as a value-added distributor of US equity products to Americans." Mr David Sexton, a director and senior executive vice-president at Yamaichi International, agrees that winning underwriting business from US companies has "historically been a tough nut for all Japanese firms to crack".

For the big four, however, the strategy of concentrating on niche businesses is already paying dividends. NSI, after losing money in the late 1980s and early 1990s, will make more than $125m in the 1993-94 fiscal year, up from $25m the year before.

Others have been reluctant to give figures, but Daiwa says its mortgage-backed securities operation has turned its US affiliate into a profit centre. Yamaichi claims to have been in the black for two years, while Nikko says earnings are gradually improving.

The response to the Japanese revival on Wall Street has been muted. The chief executive of a top US securities house says: "I don't think they've made much progress. They don't do much underwriting for US corporations, in stocks or bonds. Have they developed a credible government [securities] trading operation?"

The intention of the Japanese firms, however, has not been to dominate US underwriting or bond trading. They may be the big four at home, but in New York they would rather blend into US markets, profiting from smaller, less high profile, businesses.



LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
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Auschwitz must be preserved

From Sir Sigmund Sternberg.

Sir, I read with interest Christian Tyler's perceptive article (February 5) in which he raises the question of the future of Auschwitz and its conflicting role as a memorial, museum and tourist attraction.

I agree with Dr Jonathan Webber: a Jewish memorial is needed and an educational centre outside the camp should contain all exhibition material.

A possible venue, already extant on the camp's perimeter, is the convent nuns vacated in 1993 (not 1992) after intervention by the Pope. The convent building is now empty and in danger of being vandalised. It should be utilised while the camp itself is left "silent and eerie", in the words of Dr David Cesarani.

We should be guided by the survivors who, like Ben Helfgott, feel strongly that what is left should be preserved. The Holocaust denyers and revisionist historians will continue to claim that the most evil of crimes never occurred. But the appeal should be to those who wish to know the truth of what happened at Auschwitz, why it happened and to ensure it never happens again.

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Rover gains a hopeful platform for the future

From Mr Simon Bates.

Sir, The points raised by Messrs Wiltshire and de Looze (Letters, February 2) about the sale of Rover Group to BMW seem based more on emotional patriotism than fact.

I find it surprising that Mr Wiltshire should consider it a sad conclusion of the deal that the Rover 800 replacement will be based on a BMW platform. What is so terrible about using a platform from a motor company recognised as building the finest chassis in the world?

Moreover, he believes that, as a consequence, the R&D work on this model will be concentrated in Germany. He overlooks the fact that no fewer than three of Rover's model ranges (200/400,600 and 800) are based on Honda platforms, yet the Rover versions were not developed in Japan.

And it is wrong to suggest BMW is interested only in Land Rover. BMW is buying Rover for its expertise in smaller, front-wheel-drive vehicles – an example of how technology will flow both ways in this deal.

Mr de Looze asserts three Rover models are "overdue for replacement" (800, 200/400, and the Metro). While few would dispute this in the case of the Metro, sales of the 200/400 and 800 suggest car buyers disagree.

It is regrettable Rover is to pass out of British ownership. But it would have been sadder had it continued to suffer the indifference, incompatibility and restricted investment offered by BAe. Mr Wiltshire threatens to stop buying Rover cars. Is this the best way to help Rover's 33,000 British employees?

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Jargon's less evident purpose

From Ms Susan Corby.

Sir, Lucy Kellaway regales us ("Time to walk and talk", February 4) with amusing examples of new management jargon, but ignores a reason for it. Linguistics specialists tell us words colour our thinking and so influence our actions. The new jargon does not merely seek to mystify; it helps shift the agenda. Words such as "reward", rather than "pay", and "rightsizing", rather than "redundancies", bolster managerial authority. We may laugh at jargon but we should know its purpose.

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High cost of local reform

From Mr Eric Milligan.

Sir, Your extensive coverage of the problems associated with local government reform in England unfortunately did not include a reference to the publication on Thursday last week of a study by accountants of the cost of reform in Scotland. It is entitled *Local Government Reorganisation in Scotland: A Critical Evaluation of Costs.*

The study estimates the cost of change is between two and three times the figure quoted by the secretary of state for Scotland, with none of the resultant operational savings claimed by the government.

As has been pointed out in your columns, it is extraordinary that the government is intent on pursuing in the UK measures with such high transitional costs (amounting to £400m for Scotland alone), when the national priority is to ensure the country's emergence from recession. To the cash costs of the change have to be added the opportunity costs of the disruption of services to industry and the community, with no confidence that benefits – financial or other – will follow.

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Outlaw upwards-only provisions on commercial rents

From V A G Tregear.

Sir, Now that there are signs of recovery in the property market it might be worth considering again the sense and legality of upwards-only rent review provisions in commercial leases.

It has been the consistent practice of landlords and their agents in the last 25 years to insist on upwards-only rent review provisions. I am aware of no significant exceptions since 1966.

I have seen two booms and their respective collapses from 1973 and 1989. In the recent 1980s boom, the premium for space in the City of London was so high and the imposition of upwards-only rent reviews so remorseless that one might be tempted to conclude there was a conspiracy.

The subsequent crash, however, accompanied by high interest rates, found tenants with falling revenues locked into upwards-only clauses which prevented rentals reflecting market trends. The consequence has been insolvency for many, so aggravating the recession, and a considerable amount of unlet space at rents less than half the boom-year peak. This agony prompts one to discount the conspiracy theory.

At present, upwards-only rent review clauses are enforceable on grounds that they are part of a freely negotiated commercial bargain by the parties. This is rubbish. Tenants locked into high rents that are unaffordable in a recession suffer a powerful restraint on trade.

In recent negotiations, rentals are enticingly low. Yet the upwards-only rent review emerges unharmed. There are some deals that modify it, but I submit these are rare and, as the market goes up, the old habit will be reinforced again.

As the damage to businesses and profitability both for tenants and landlords has been so obvious in recent years, surely the time has come to outlaw upwards-only rent review provisions.

Some may argue that abolition will damage the balance sheets of property companies and the banks and institutions which lend to them. Recent events should show these banks and institutions the folly of favouring one small group of customers over the majority – the tenants. Regrettably, however, the lessons have not been learnt.

Legislation is the only way to end this pernicious practice.

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FINANCIAL TIMES

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Wednesday February 9 1994

Clarke nudges interest rates

The change in UK base rate announced by the Bank of England yesterday came as a surprise, the surprise being not so much the fact of a cut, as its small size. This was the first quarter-point cut since April 1985. What does such fine-tuning of interest rates mean and does it make any sense?

The justification for the small change in the base rate of interest was provided by the Bank's inflation report, published – not coincidentally – on the day the cut was announced. It has three main messages: first, inflation has turned *out significantly* lower than forecast last November, partly because of large reductions in food prices; second, underlying inflation is projected to stabilise at about 2-3 per cent from the middle of this year, well below the forecasts made last November; but, third, "the risks to the central projection for inflation are asymmetric – a rise in underlying inflation seems more likely than a further fall".

If lower than expected inflation was thought to justify yesterday's reduction in base rates, the relatively high risk of an unfavourable future outcome justified only a small one. In response, the authorities decided to do something, but not much.

With base rates down to levels last seen very briefly in 1977, the chancellor also argues that "it is right to reduce the magnitude of interest rate changes". Yesterday's quarter-point reduction is, for example, proportionately equivalent to a half-point cut with base rates at 11 per cent. It will also generate a reduction of some 10 per cent in the short-term real rate of interest. While small, therefore, the cut is not absurdly small.

For all that, the move is mainly symbolic. The authorities have decided to adopt the monetary policy equivalent of the lifting of the governor's eye-brows.

Mr Alan Greenspan's Federal Reserve demonstrated only last Friday the effectiveness of an intrinsically trivial change in interest rates, at least when it comes from a respected institution and signals the turn in the interest rate cycle. But what does this particular change symbolise? A part of the answer is that Mr Kenneth Clarke is fairly content with the economy's likely performance. Another part is that the authorities believe they can fine-tune monetary policy in response to emerging news about both inflation and economic activity.

The criticism of the fine-tuning is that it assumes an implausible amount of knowledge. But the criticism of what Mr Clarke calls prudence is more serious. It is that this is *just another word for complacency.*

The Bank's inflation report shows that employees' expectations of inflation have been running considerably above actual inflation and wage settlements. This means that employees have been forced by higher unemployment to accept lower than desired wage increases. This also suggests that pay inflation may continue to fall. Moreover, retail price inflation is forecast by the Bank to turn out lower than employees expect, even with the tax increases in the pipeline.

The economy might also slow. As the report points out, if real disposable income were to stagnate over the next two years, a growth rate of 2¼ per cent a year in real consumption would require a decline in the personal savings ratio to 6 per cent, a level last seen in 1988. Given the tax increases in prospect, stagnation in real disposable incomes is conceivable. How likely then is such a steep decline in the savings rate, particularly given the still exceptionally high ratios of personal debt to income?

So the Bank may still be too pessimistic on inflation, which might fall faster than now forecast, partly because of current capacity under-utilisation and partly because growth in demand may fall. If so, the chancellor may make several of his quarter-point cuts over the next year. Politically, this would give him more days to announce good news. Economically, such fine-tuning has little obvious to recommend it. Provided the chancellor responds swiftly to economic developments, it need not do much harm either.

EU secrets

Ever since Danish voters rejected the Maastricht treaty in June 1992, the governments they thus rebuffed have spoken frequently of the European Union's need to improve its image by showing greater "openness". Unfortunately, the rhetoric about transparency and accountability is still mocked by the practice.

Debates in the council of ministers remain shrouded in unnecessary secrecy. The Commission, for all its promises of a more systematically open approach, has yet to produce change where it matters. Now the member states are becoming embroiled in an embarrassing legal wrangle over attempts to limit public access to information on their decisions.

The member states cannot be faulted on the stated aim of their code of conduct on information, which is to allow unrestricted access except where monetary stability, national security, commercial confidentiality, privacy or relations with non-member countries might be endangered. In December, however, the council, by majority vote, inserted an exemption giving EU institutions the right to reject requests for information that could be "contrary to the efficiency and good order of the institution".

Infuriated by this potentially open-ended confidentiality clause, the Dutch government has decided to seek annulment of the code of conduct in the European Court on the grounds that a purported attempt to improve the rights of EU citizens should have been settled by unanimity rather than majority. Its action is thoroughly welcome. If the December decision is not changed, it will seriously undermine such moves to "openness" as have already occurred and allow EU institutions to maintain their traditional approach: that all information is secret unless they decide otherwise.

Reversing this move, however, will only be a first step in bringing genuine transparency to EU affairs. Ideally, the Union would adopt a comprehensive freedom of information act along US lines, and allow the full televising of its main legislative body, the council. As a basic minimum, it should publish the full agenda before council meetings and disclose how governments voted thereafter. Only then will the citizens of EU member states be able to exercise proper scrutiny of the decisions being taken secretly in their name in Brussels.

Dial Asia

Asia-Pacific has the world's fastest growing regional economy. But beyond a handful of developed countries, its telecommunications networks are primitive. According to the World Bank, across much of the region they "continue to perform substantially and chronically beneath the needs of their respective economies".

Virtually all of the medium- and low-income countries in the region have long waiting lists for telephone lines. In nearly half of those countries it would take until 2000 or later to meet *existing* demand on the basis of recent growth rates. China, India, Indonesia and Vietnam – to take just the larger lower-income states – provide less than one phone line per 100 people.

All governments in the region recognise the problem. Most of them also sense the solution: liberalisation of laws restricting the provision of telecommunications services. But across the region they are prevaricating, willing the end but suspicious of the means – particularly if it involves, as it inevitably does, the admission of overseas companies as partners in new ventures.

Their main fears are for control and jobs. Ministers see telecommunications as "strategic", so do not want to forfeit state control. They also worry that privatisation and competition will result in large-scale cost-cutting, as it has in developed countries.

Both fears are unfounded or exaggerated. Privatisation of existing operators is not the first essential, as the World Bank study rightly notes. The priority is to license new operators to build lines and provide services, and to guarantee a sound regulatory and investment environment. That can be done without losing ultimate state control, notably by use of "build, operate, transfer" contracts of the kind being pioneered by some countries.

Similarly, privatisation need not involve the sale of a majority stake. The critical objective for developing countries should be to acquire a strategic partner with cash and telecoms knowhow.

Governments would do well to study Venezuela's experience. In the two years since a consortium led by the US operator GTE took a minority stake in the country's state telephone company, it has received more network investment than in the previous 20 years. The moral is not restricted to telecommunications.

Swoop for a tempting morsel

GKN's bid for Westland comes as the helicopter industry undergoes restructuring, writes **Paul Betts**

Westland's position as an independent company and the UK's only helicopter manufacturer always looked vulnerable after its controversial rescue eight years ago. But there is a particular irony in yesterday's £500m takeover swoop by GKN on the Yeovil-based helicopter manufacturer.

Westland's financial crisis in 1986, precipitated by an abortive attempt to develop the W30, a civil version of its Lynx military helicopter, led to a full-blown cabinet crisis with the resignation of Mr Michael Heseltine, at the time defence secretary, and the then trade and industry secretary, Mr Leon Brittan.

The issue was whether Westland should end up under American control or as part of a new European helicopter consortium led by Aerospatiale of France. Yesterday the company appeared on the verge of falling into the hands of a venerable British engineering company, better known for its expertise in the car components industry.

Westland's initial reaction was to describe the GKN bid as "unwelcome". But while GKN's timing caught it by surprise, it had already been bracing itself for a takeover approach in the past few months. Ever since United Technologies (UTC), the US conglomerate and owner of Sikorsky, the world's biggest helicopter manufacturer, indicated last year it intended to shed its 18.7 per cent equity holding in Westland, the die appeared to be cast for Westland's independence.

UTC's shareholding dated back to the original Westland rescue package, when the US company was flanked by Fiat of Italy and Hanson, the industrial conglomerate, as core shareholders of the UK helicopter group. In 1988, GKN bought the Fiat and Hanson holdings, giving it a 22 per cent stake in the company as well as a mutual agreement with UTC to have first rights on each other's Westland interests.

Armed with UTC's agreement on Monday night to sell its 18.7 per cent stake to GKN, and with a big minority of the shares already under its belt, the UK engineering group launched its full bid. If successful, GKN will secure a more solid UK base for Westland. The question is whether a takeover by GKN would ultimately provide a long-term solution for Westland and helicopter development in the UK at a time of consolidation in the industry in the US and Europe.

Mr Alan Jones, the Westland chief executive who will take over next month as chairman from Sir Leslie Fletcher, has successfully restructured the company during the past four years and placed it on a sounder footing. Although helicopter deliveries are at a low ebb – the company only delivered four last year – there are encouraging prospects in the shape of Westland's new EH101 naval and transport helicopter, jointly developed with Agusta of Italy. It has continued to make good profits from helicopter spares and overhaul business and is bidding, in a partnership with McDonnell Douglas, for the UK army's £2bn requirement for a new attack helicopter.

At the same time, Westland has been aggressively cutting its cost base, and more than 2,000 jobs have been shed in the past six years. It has also expanded in the civil aerospace business, supplying components and structures for large airframe programmes. Its £1.45bn order backlog guarantees it three years of sales.

But for all this successful restructuring, Westland still faces a longer-term problem of scale in an industry undergoing a profound shake-up. In Europe, Aerospatiale of France has merged its helicopter business with that of Deutsche Aerospace to create the Eurocopter joint company, the world's second-largest helicopter manufacturer after Sikorsky. In the US, McDonnell Douglas had considered selling its helicopter division because it felt the operations would profit more from forming part of a bigger group, while the company concentrated on its other defence activities. McDonnell Douglas has since decided to hold on to its helicopter business, but has made no secret that it would still consider a sale if the right opportunity arose.

Even thought Westland might be too small to compete alone in the global market, its restructuring and EH101 helicopter have made it an attractive target for GKN. Sir David Lees, GKN chairman, conceded that the improved outlook at Westland was an important reason behind his company's move. The engineering company acquired its original stake in Westland as a means, eventually, of developing its defence activities. "We looked upon our stake in Westland as an option: it was a question whether we would exercise that option or sell it," Sir David explained.

Although GKN is the UK's leading supplier of light armoured vehicles, its defence business occupies a relatively modest position in its overall industrial portfolio. The defence division had annual sales of about £120m last year, representing deliveries of Warrior armed vehicles to the Ministry of Defence. This compared with total group sales of about £2.5bn.

For GKN there were two stark options. First, it could either seek control of Westland or sell its stake; second, and more significant, it had to choose whether to increase its overall presence in the defence sector or pull out of the market altogether. At a time when not only the helicopter business is consolidating but more far-reaching changes are taking place among the world's biggest contractors, all defence companies are facing the hard decision of whether to persevere in the business or divest.

Sir David said the company had considered both options. What swayed the decision was a combination of circumstances, including changes in the defence market following the end of the cold war, GKN's own success in breaking into the Middle East export market last year with its Warrior vehicle, and the progress in Westland's EH101 helicopter programme.

Sir David believes the post-cold-war defence environment has increased demand for rapid-deployment military equipment such as armoured vehicles and helicopters. Although defence spending has been cut, the emphasis is now on mobile battlefield equipment for localised conflicts, peacekeeping and internal security. "The threat of more regional conflicts like Bosnia, Somalia or the Gulf are unfortunately very real. Helicopters and armed vehicles are very useful products in these military situations," he said.

Although GKN's contract to supply Warrior vehicles to the Ministry of Defence ends this year, an order for an unspecified number of armoured vehicles from Kuwait will maintain Warrior production until 1997.

Apart from complementing GKN's defence activities in the specialised niche of rapid-deployment battlefield equipment, Westland would also provide the engineering group with a hedge in the event that future export sales of armoured vehicles failed to meet expectations. Simply put, by the time the Kuwaiti contract runs out in 1997, Westland should be starting the production runs of its new EH101 helicopter.

Sir David said GKN started thinking seriously about expanding its defence business last year, when there were signs that UTC was interested in selling its stake in Westland. The US company is in the throes of its own restructuring, and is competing against Westland in some product areas, notably with its proposed S92 large helicopter which would rival the EH101.

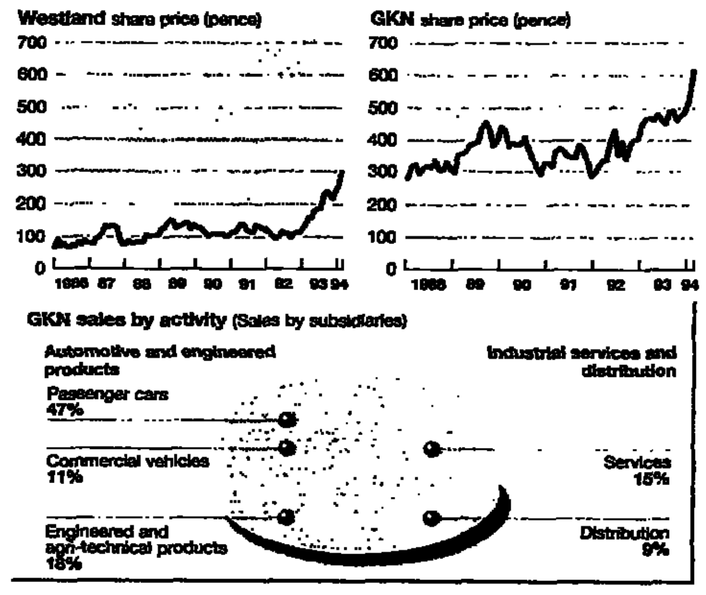
Everything suddenly seems to have fallen into GKN's lap: the UTC stake has now given it a 47 per cent stake in Westland and ultimate, if not perhaps immediate, control of the helicopter maker; it has boosted the size of its defence division into a £500m sales a year operation, making it the third leg of its core businesses, along with automobile components and industrial services; it has also insured itself against possible future swings in the defence sector by positioning itself in both the armoured vehicles and helicopter markets.

Whether all this will be sufficient to form a sound, long-term basis for GKN's expanding defence interests and for the UK helicopter industry remains an open question. The prospect of the imminent revival of talks between British Aerospace and the General Electric Company to establish a single, large UK defence contracting group could ultimately have profound repercussions for both Westland and for its prospective new owner.

The battle for Westland: turbulence ahead

Westland chronology

- 1935 Westland Aircraft formed
- 1959 Acquires Saunders-Roe
- 1960 Acquires helicopter division of Bristol Aircraft and Fairey Aviation
- 1986 Westland crisis: financial reconstruction package approved, with US's Sikorsky (division of United Technologies) and Fiat acquiring minority shareholdings
- 1988 GKN acquires 22% holding in Westland for £48m
- 1991 IBM and Westland win £1.5bn prime contract for EH101
- 1994 Westland clinches £150m order from Brazilian army
- 1994 GKN buys United Technologies' stake in Westland and launches hostile bid for remaining 53%



Source: Datastream/GKN Report accounts

Peter Norman on the careful calculations that lay behind yesterday's cut in UK base rates

Into uncharted territory

For the Treasury and Bank of England, yesterday's decision to cut bank base rates by a quarter percentage point to 5.25 per cent was a judgment of Solomon.

Inflation, whether measured by the "headline" retail prices index or by the government's chosen "underlying" inflation rate of RPI minus mortgage interest payments, is set to rise in the months ahead as the indirect taxes decided in last year's two Budgets are put into effect.

On the other hand, as yesterday's Bank of England inflation report makes clear, the rise will come from a much lower base than assumed just three months ago so that, with luck, the official target ceiling of 4 per cent for underlying retail price inflation will not be breached either this year or next.

Mr Kenneth Clarke, the chancellor, focused yesterday on recent economic indicators in his explanation for the first quarter-point rate change since 1985. But the discussions between the Bank and Treasury that led up to the decision when Mr Clarke met Mr Eddie George, the Bank governor, a week ago, were concerned just as much with the future.

The UK economy is heading into uncharted territory, requiring judgments by policymakers for which recent experience is a poor guide.

The biggest imponderable is the fiscal tightening that takes effect from April when the tax increases decided last year really begin to bite. The increased tax burden in 1994-95 – at £8.4bn or 1.3 per cent of gross domestic product – looks formidable. But nobody can tell how the public will react to the mix of frozen tax allowances, increased national insurance contributions, reduced mortgage interest relief and lower married couples' allowance, and value added tax on domestic fuel and power.

Will the tightening choke off the recovery, as many have warned? Or will low inflation, falling interest rates and increased consumer confidence caused by falling unemployment prompt people to reduce their savings from the most recent recorded level of 10.6 per cent of disposable income and so keep up a healthy level of consumption?

The strength of the economy since the November Budget favours the second scenario. But if the economy is so strong, will not people want higher wages to offset the increased tax burdens and set off a wage-price spiral similar to those that were so familiar in the past?

The Bank and Treasury hope that they will not. They have taken comfort from the way in which the inflationary pressures unleashed by sterling's devaluation in September 1992 were absorbed by industry, wholesalers, retailers and employees, and they are hoping that wage pressures will stay subdued after the tax rises because there is still thought to be considerable slack in the economy.

The signs are that the decision was finely balanced. The Bank would have opposed a half-point cut

It is this slack, or output gap, that has enabled the UK to cut rates at a time when economic growth appears to have risen above its long-term trend rate. The US, where the economy is growing faster and recovery is further advanced than in Britain, last week decided to nudge its short-term interest rates higher by a quarter of a percentage point precisely because it feared the economy was absorbing its slack and might run into inflationary bottlenecks.

Yesterday's move is further evidence of the freedom given to the monetary authorities by the pound's departure from the European exchange rate mechanism in September 1992. The UK's rate cut came as the Bundesbank was disappointing hopes of lower German interest rates by leaving its significant "repo" rate unchanged at 6 per cent. The UK base-rate reduction exerted only moderate downward pressure on the pound and the exchange rate of sterling seems to have played no more than a minor role in the discussions leading up to the interest rate cut.

Instead, by timing the cut for the same day as the Bank's inflation report, the authorities were keen to emphasise how interest rate decisions in Britain are now determined primarily by the medium-term inflation outlook. In choosing a day when Mr Clarke left London early on a trip to Paris and Mr George was conferring with fellow central bankers in Basle, they may also have sought to play down the move.

All the signs are that the final decision was finely balanced. The Bank certainly would have opposed a cut of half a percentage point for fear that it might fuel inflation.

The quarter-point base rate cut will have little perceptible impact on the UK economy. Indeed, the Halifax Building Society said yesterday that it would not change its borrowing or lending rates following the move.

But the rate reduction will reverse a slight tightening of monetary conditions that had arisen because inflation has been more subdued than anticipated since November, so pushing real interest rates higher. In that case it will do no harm.

OBSERVER

'I was supposed to play a pensioner in Maxwell the musical'

Fly in Jo'burg soup

■ A private lunch in Johannesburg yesterday offered an intriguing insight into both the African National Congress and one of South Africa's leading newspaper groups.

Host was David Kovarsky, chief executive of Times Media, whose publications include Business Day, the Sunday Times and the Financial Mail. Guest of honour was ANC president Nelson Mandela. Surprisingly absent, as a result of ANC objections, was Nigel Bruce, editor of the Financial Mail.

Bruce was paying the price for having offended Pallo Jordan, a member of the ANC executive and the organisation's information supremo; Jordan was invited to the lunch. Three years ago Bruce, in an article on South Africa's service sector, referred to Johannesburg waiters as "truculent tribesmen with a thumb in the soup and an eye on the clock".

When the ANC received Kovarsky's invitation to lunch, Jordan made clear that he and Mandela would only attend if the author of this slur was not present.

Two weeks ago Bruce wrote to Jordan accepting that the comment might have been in poor taste, expressing "sincere regret" if it had caused offence, but saying that he did not deserve to be branded a racist on this account.

Jordan spurned the olive branch and, with Kovarsky's reluctant approval, Bruce withdrew from the lunch, saying to Jordan: "I do not wish to force my company on you or anyone else." What's for dessert?

Global village

■ All is revealed as to how Peter Job, the peripatetic Reuters chief executive, had, at the last count this past summer, clocked up visits to 69 different nations during his time with the company. At yesterday's press conference, he explained that the news and information service can now count terminals in 150 countries, but went on to admit that even he had difficulty in remembering quite which they were. So he had boned up on Reuters internal list ahead of his date with the press – to find Iceland omitted, but Chessington included.

Paddy's revenge

■ Action man Paddy Ashdown lived up to his reputation the other night with a robust suggestion on how best to tame the BBC's hard-nosed interviewer, Jeremy Paxman, who frequently terrorises politicians on BBC's Newsnight.

"Kick him on the shins under the table," the Liberal Democrat leader told a House of Lords dinner for aspiring ethnic minority Lib Dem MPs. No sooner had the ex-commando passed on this fighting tip than the BBC pulled him away for an 11th hour appearance on . . . Newsnight. Obviously, Paddy doesn't kick hard enough.

Crossing de Cuéllar

■ Even former United Nations secretaries-general are no longer treated with respect. Javier Pérez de Cuéllar – whose cv boasts more than 30 honorary degrees and "the highest decorations of nearly 40 countries" – was to be found in London yesterday giving an impassioned talk about the importance of democracy to the Anglo-Peruvian society.

"I am 100 per cent a democrat and think that all problems can be solved by democracy," opined de Cúellar. "Oh yeah," piped up a Colombian scribbler, somewhat peeved when the great man pooh-poohed the notion of solving the international drugs problem by legalising the trafficking of narcotics. "We have a long-established democracy in Colombia and we haven't solved all these problems," she averred.

Off line

■ Poor old British Telecom. Its young rival, Mercury, really does seem to be running rings round it in the public relations battle over its biggest ever single price cut.

No sooner had Michael Hepher, BT's group managing director, addressed the nation yesterday morning on BBC radio's Today programme, than up popped a man from Mercury saying his company was also cutting its prices. Hepher then moved across to BBC breakfast TV, only to find himself sparring with Terry Rhodes, Mercury's director of competition strategy.

Hepher, keen to maximise the impact of what should have been BT's biggest publicity coup in years, had agreed to carry on the debate with Mercury on ITN's lunchtime news. However, when BT heard that Harris had delegated one of his flunkies, the indefatigable Rhodes, Hepher bowed out. BT's press office said last night that Hepher had wanted to debate the subject with the "organ grinder, rather than the organ grinder's assistant".

Hearts and minds

■ John Major's arrival in Leicester last night on the first of his promised meet-the-people tours has not put an end to No 10's bunker mentality.

Desperate to boost morale ahead of the local elections, Major has invited half a dozen of the Tory party's top women activists for a *tête-à-tête* next month at Downing Street. But the distinguished guests have been told that it will not be an open session where any old gripe can be aired.

Instead they are required to submit – in advance – two written questions. Major has promised to answer one question from each. The sort of treatment one might expect to be dished out to errant kids rather than party stalwarts.

Welsh movie

■ The Brecon & Radnor Express saw the writing on the wall for Welsh agencies a while back, when it ran a story on the Development Board for Rural Wales. The headline: "Last Quango in Powys?"

FINANCIAL TIMES
Wednesday February 9 1994

'Political discrimination' fear over Hong Kong

Britain rebukes China's envoy for trade threat

By Alexander Nicoll, Asia Editor, in London

China's ambassador to Britain was rebuked yesterday by Mr Douglas Hurd, the UK foreign secretary, for suggesting to British companies they would suffer discrimination in China because of the dispute between London and Beijing over Hong Kong.

Mr Hurd said trade relations between China and the European Union would be affected if companies failed to win business for political reasons.

Mr Ma Yuzhen, the ambassador, has met executives of many leading British companies doing business in China and has warned them that Chinese people would be offended by Britain's stance on Hong Kong and would therefore be more willing to deal with companies from other countries.

The possibility that UK companies could miss out on the boom in Chinese investment and trade because of the Hong Kong dispute seriously concerns British industrialists. British exports to China have been rising sharply, though from a low base. Businessmen, though reluctant to be seen publicly disagreeing with the government over its policy on Hong Kong, have recently been meeting ministers and officials.

However, Mr Hurd told a parliamentary select committee: "I am not saying the ambassador is exceeding his functions, but I think that British businessmen would be well advised not to take his analysis at face value."

Mr Hurd said: "That kind of discrimination for political reasons is something which the European Union would have to take very seriously."

He said that European foreign ministers had briefly discussed the issue in Brussels on Monday and that it was relevant to China's trade relations with the EU and to China's application to join the General Agreement on Tariffs and Trade.

Sir Leon Brittan, trade commissioner, plans to raise the issue of trade discrimination against EU member states when he visits Beijing in the next few weeks.

Officials said Mr Ma had been called to the Foreign Office and been told by a senior official that his remarks to British companies were unhelpful.

Businessmen said the ambassador had been careful not to suggest that the Chinese government itself would discriminate against British companies. However, he and other Chinese government officials have repeatedly said Sino-British trade was bound to suffer from poor relations resulting from the Hong Kong impasse.

Businessmen have not yet been able to identify any contract which has failed to be awarded to a British company because of the dispute.

Mr Hurd reiterated the government's strong support for Mr Chris Patten, the governor of Hong Kong, whose proposals for broader democracy are bitterly opposed by Beijing.

He said that it was strongly in the interest of China, which assumes sovereignty over Hong Kong in 1997, to reach agreement on constitutional issues as well as on Hong Kong's new airport and technical aspects of the transfer.

UN row brews over Bosnian air strikes

By Our Foreign Staff

Two of the five permanent members of the United Nations Security Council yesterday came out against air strikes against the Bosnian Serbs, with Russia claiming that UN secretary-general Mr Boutros Boutros Ghali had exceeded his authority in instructing Nato to prepare for such action.

With Nato ministers due to consider the feasibility of air strikes at a meeting in Brussels today, the Russian foreign ministry yesterday issued a statement saying that "Mr Boutros Ghali's letter [to Nato] deals with actions which go beyond UN resolutions on Bosnia."

Meanwhile, China said it wanted to see only peaceful means used to settle the conflict in Bosnia, instead of "actions which might intensify the confrontation and further complicate the situation there".

In the letter – delivered to Mr Manfred Wörner, the Nato secretary-general, on Sunday – Mr Boutros Ghali said he was empowered under UN resolution 836 to authorise the use of force in Bosnia.

However, Mr Mikhail Demurin, a Russian foreign ministry spokesman, said Mr Boutros Ghali's request to Nato should have been made only after consultations with the international community. "Nato's readiness for strikes is one thing, while making a political decision to launch them is quite another," he said.

Ukraine and Canada yesterday also spoke out against military intervention, fearing it might endanger their peacekeeping troops in the former Yugoslavia.

In Washington, White House spokeswoman Dee Dee Myers said the US was still focusing on diplomatic remedies to the situation.

Mr John Major, the UK prime minister, emphasised that UN forces must apply "immediate and strong pressure" to halt attacks on Sarajevo. He said UN commanders should set clear and specific conditions for relief of the city. He insisted, however, that the UK would continue to block any suggestion of generalised air attacks.

● Mr Mate Boban, the hardline nationalist leader of the Bosnian Croats, resigned yesterday, an apparent casualty of growing international pressure on his political backers in Croatia.

THE LEX COLUMN

Cut down to size

A quarter-point cut in the base rate was baffling after last week's upbeat economic report from the Treasury. After last night's inflation report from the Bank of England, it is even more so. Though the report expresses satisfaction with the underlying fall in inflation, it attributes a large part to the one-off effect of supermarket price cutting. It contains nothing which calls out for an immediate fall in rates. Indeed, it suggests that a rise in underlying inflation is more likely than a further fall. Against that backdrop, markets were left groping for an explanation for the rate cut. The more it pondered, the more worried the gilts market became. Long issues lost all their early gains and more.

The natural temptation was to assume that the main motivation was political. The government faces difficult local and European elections in May and the prime minister has said he expects Tory support to revive as voters see the economy recover. He cannot risk the elections coinciding with a fresh economic slowdown induced by April's tax increases. Such an interpretation is impossible to prove. But in the absence of anything better, it is likely to stick.

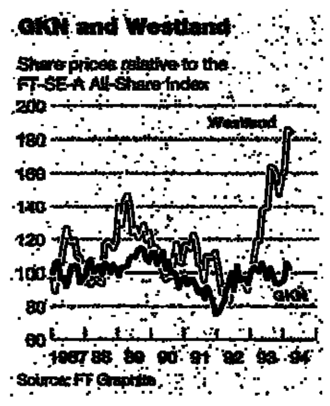
For its part, the Bank seemed prepared to accept a quarter-point cut on the basis that it was better to be safe than sorry about the impact of the tax increases, but it was adamant in seeing no justification for a half-point cut. Perhaps the quarter point was a compromise, but the fact that rates are moving in such small stages suggests they must be near their trough. That is a bitter pill for the gilts market, especially if politics are influencing monetary policy. Sterling's sharp fall against the dollar last night reinforced the belief that US investors were moving on from gilts. The government cannot afford to see them go. It still has a lot of paper to sell.

GKN/Westland

It is hard to adjust to the idea that Westland, in such deep trouble eight years ago, is now worth over £500m. But the company's medium term prospects have been transformed by good management and the Royal Navy's order for the EH-101 helicopter. Having sweated through the hard part of the recovery, Westland may be forgiven for feeling that GKN's bid is opportunistic. Faced with the current offer, shareholders may agree.

Despite GKN's brave attempts to make a helicopter look like an

FT-SE Index: 3440.2 (+21.1)



armoured personnel carrier, there is little overlap between the two defence businesses. The industrial logic of the deal is thus weak. On the other hand, profits from the Warrior fighting vehicle will slow in 1996, just as the EH-101 comes on stream, making the deal look wonderful on an analyst's spread sheet. At that stage, Westland's UK earnings would also release a large slug of GKN's pent-up Advance Corporation Tax.

Yet GKN has come in at a discount to the current market price. Admittedly, it is offering other shareholders the same deal it struck with United Technologies, and it already holds 47 per cent of the shares. But to reap the ACT benefits, GKN needs at least 75 per cent of the equity. Relying on a few institutions to tip it over 50 per cent, and then hoping that everyone else will cave in rather than remain a minority holder, is a dangerous game in a share with Westland's growth prospects. Clearly, there would be more money available for a recommendation, but that looks unlikely at anything like the current price.

There are financial risks with a small company shouldering such large defence contracts. Ironically, those concerns might increase if Westland were to win the British Army attack helicopter order with the Apache. Even so, it looks as though GKN wants Westland more than Westland needs GKN.

Reuters

The fear about Reuters was that it had lost its growth momentum. But it now appears that the stalling in the rate of screen installations at the end of the 1980s reflected the cyclical downturn in financial markets rather than a terminal decline in prospects. Reuters' annual results certainly highlight a strong upturn in activity. Even when currency gains are stripped out, Reuters achieved double-digit revenue growth in the second half of 1993 and forecast that trend would continue this year. Instinet has been the star performer, almost tripling its profits contribution to £38m. Moreover, although Reuters' prices may not rise in 1994, its margins should still widen due to an improving product mix.

Despite its £350m share buy-back scheme, Reuters ended the year with £450m in the bank. An increasing rate of installations, higher research and development costs and recent acquisitions will absorb much of this year's cash flow. But Reuters retains substantial resources to back the seedcorn investments it has scattered in other fields should any promise to sprout shoots.

In the short run, Reuters will have to work hard to make sense of Quotron, which is experiencing a high rate of cancellations reducing its subscription base to well below 40,000. The uncertain future of Globex may also cause some anxious moments. But the chief concern of investors will be how great a premium they are prepared to pay for what is now the UK's biggest media business. Reuters' rating of 27 times 1993 earnings is certainly racy. Then again, many other media stocks sit on just as fat multiples with far less justification.

Granada/LWT

Granada's inability to secure a recommendation for its increased offer leaves LWT's shareholders with a decision they will not relish. The industrial logic for consolidation may be clear. The financial argument is also more compelling. Nevertheless, the big institutional investors, which control most of LWT's stock, will be reluctant to sell out a management that has done such a good job in delivering shareholder value.

But any sympathy will be tempered by fear of what will happen to LWT's shares should the bid fail. The media re-rating is unlikely to sustain the shares at the current level. Many shareholders, with stakes in both companies, will also be mindful of the damage that would cause Granada, too. That suggests the offer will succeed, however shame-faced some investors may feel.

US telecoms group plans network for City of London

By Andrew Adonis in London

MFS Communications, the largest national provider of telecommunications networks competing with the local Bell companies in the US, is to launch a network in the City of London.

With turnover of $108.7m in 1992 and operations in 14 American cities, MFS will be a powerful competitor to BT and Mercury. It has a record of making swift inroads against former monopoly telephone companies through aggressive pricing and marketing.

MFS's City of London network, which will be operational from April, will be its first outside the US. It is planning extensions to other UK cities, and expects to provide access to Paris and Frankfurt later this year.

It will interconnect its London network with the long-distance networks of BT, Mercury and Energis, offering an end-to-end service at competitive tariffs.

MFS has built its business by competing with former local monopoly carriers, offering access to long-distance networks.

Since the break-up of the US Bell telephone company in 1984, local and long-distance networks have been operated separately, with competition far more intense in the long-distance market.

The price of UK business phone calls also fell sharply yesterday with the abolition of the peak-rate calling band by BT and Mercury, cutting between 20 and 25 per cent from the cost of calls made between 9am and 1pm on weekdays.

BT's price cuts fulfil most of its obligation to reduce prices before July by 7.5 per cent after allowing for inflation, under a price cap agreement with Oftel, the telecommunications regulator.

Residential customers, who will gain little from the abolition of the peak rate, were the main beneficiaries of a new weekend rate cutting long-distance call prices before Christmas.

Mercury has matched BT's price cuts, and claims still to be cheaper for most long-distance calls.

The abolition of the peak rate will leave three charging bands: a standard daytime rate applicable from 8am to 6pm on weekdays; a cheap rate for calls between 6pm and 8am on weekdays; and a weekend rate.

Mr Terry Rhodes, Mercury's director of competition policy, said Mercury had "long been planning" to abolish its equivalent of peak rate but had been prevented from doing so "by the existing interconnect payments that we make to BT."

Mercury does not have a local network, and competes with BT for long-distance and international traffic.

BT is already under pressure in its local market from cable companies building cable TV and telephone networks in conurbations. Cable operators have more than 300,000 telephone customers and are growing rapidly in residential areas. They plan to invest more than £5bn in UK cable over the next five years.

Markets respond strongly in wake of Wall St rally

Continued from Page 1

inspired by agreement on the government's economic stimulus package which came after Tokyo stock market closed.

Continental Europe's bourses started well, but lost some of their early gains after mild weakness in US equities in the American mid-morning. Wall Street started well again, but profit-taking was keeping a lid on the market by mid-session, amid further bond market weakness and concern after the Federal Reserve's tightening of monetary policy.

European government bond markets failed to hold on to early gains after an indirect signal from the German Bundesbank that it had no immediate plans to lower interest rates. Investors interpreted the central bank's decision to set its 14-day repurchase agreements at an unchanged fixed rate of 6 per cent as a sign that rate cuts were unlikely before March.

Better-than-expected German jobless data for January and an upward revision in Germany's inflation rate for last month were seen as further evidence that the Bundesbank could wait.

After the UK interest rate cut, leading currencies took a back-seat to sterling. The dollar was slightly firmer against both the D-Mark and the yen.

FT WEATHER GUIDE

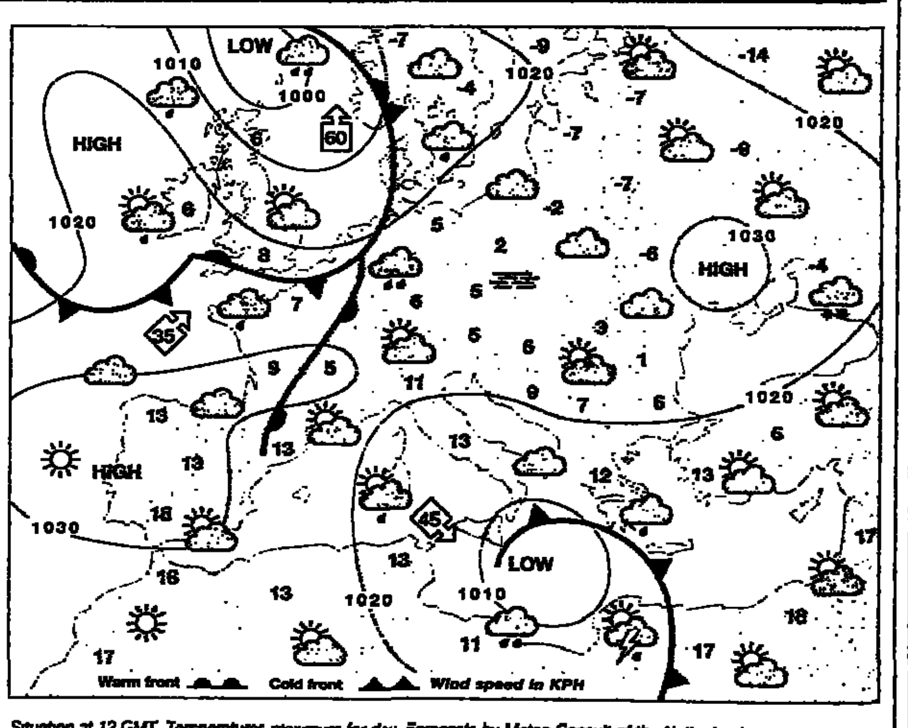
Europe today

Scotland and northern Ireland will have wintry, blustery showers and gale force winds in coastal areas. England will remain cloudy with periods of rain. North-west France and the Benelux will also be cloudy and rainy. The rain will push eastwards in the afternoon to affect north-west Germany. It will be fair in the Alps, southern Germany and southern France, but there will be areas of persistent fog. Portugal and Spain will stay sunny, while southern Italy and Greece will be rather cloudy with numerous showers, sometimes with thunder.

Temperatures in Scandinavia and Russia will stay well below freezing.

Five-day forecast

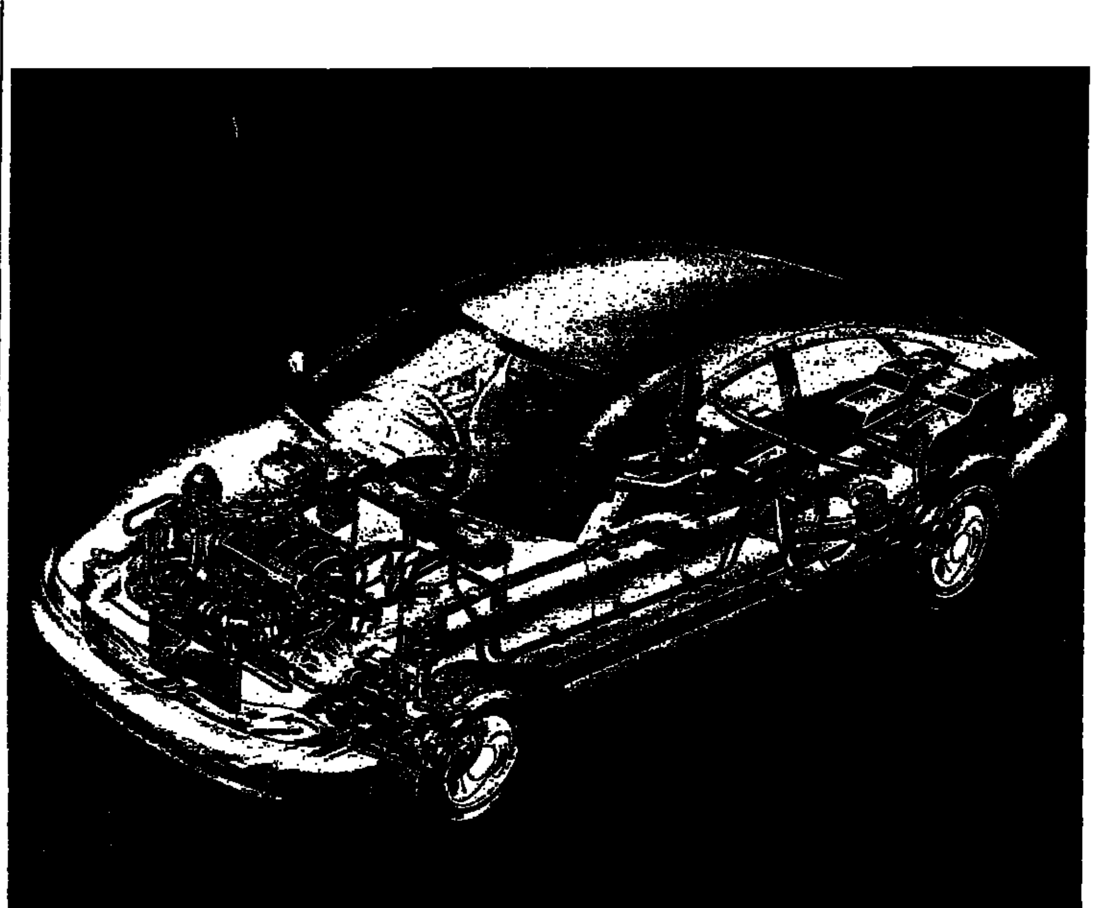
Wintry conditions will remain in Scandinavia and Russia. Western and southern regions will have some snow. Active low pressure in the Atlantic will push milder air towards western Europe with periods of rain and gale force winds on the coasts. The cold air in Scandinavia will remain until early next week when it will begin to push south. South-west Europe will stay dry and rather sunny. Cloud and showers will decrease in southern Italy and Greece.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	sun	24
Accra	fair	32
Algiers	shower	13
Amsterdam	shower	7
Athens	shower	11
B. Aires	fair	30
B.ham	cloudy	6
Bangkok	fair	35
Barcelona	fair	13
Beijing	fair	4
Belfast	fair	5
Belgrade	rain	7
Berlin	fair	6
Bermuda	shower	24
Bogota	fair	19
Bombay	sun	31
Brussels	rain	7
Budapest	cloudy	5
C.hagen	rain	4
Cairo	sun	18
Cape Town	fair	30
Caracas	fair	26
Cardiff	fair	8
Chicago	fair	-10
Cologne	rain	6
D' Salaam	fair	31
Dakar	fair	25
Dallas	rain	13
Delhi	fair	25
Dubai	sun	24
Dublin	shower	6
Dubrovnik	shower	13
Edinburgh	hail	6
Faro	sun	17
Frankfurt	fair	4
Geneva	fair	5
Gibraltar	sun	17
Glasgow	sleet	6
Hamburg	shower	5
Helsinki	cloudy	-9
Hong Kong	cloudy	21
Honolulu	fair	27
Istanbul	fair	5
Jersey	rain	8
Karachi	sun	28
Kuwait	fair	19
L. Angeles	sun	19
Las Palmas	fair	23
Lima	cloudy	27
Lisbon	sun	14
London	rain	8
Lux.bourg	rain	3
Lyon	hazy	4
Madeira	fair	18
Madrid	fair	13
Majorca	fair	14
Malta	thund	13
Manchester	fair	6
Manila	fair	31
Melbourne	rain	25
Mexico City	sun	21
Miami	fair	30
Milan	fair	9
Montreal	cloudy	-15
Moscow	fair	-11
Munich	hazy	4
Nairobi	fair	29
Naples	shower	13
Nassau	fair	28
New York	sleet	1
Nice	fair	14
Nicosia	fair	16
Oslo	snow	-1
Paris	cloudy	7
Perth	fair	25
Prague	cloudy	5
Rangoon	hazy	35
Reykjavik	shower	2
Rio	shower	27
Riyadh	sun	22
Rome	fair	15
S. Frsco	sun	14
Seoul	sleet	0
Singapore	shower	31
Stockholm	cloudy	-4
Strasbourg	fair	6
Sydney	fair	31
Tangier	sun	16
Tel Aviv	fair	17
Tokyo	rain	13
Toronto	cloudy	-6
Tunis	rain	13
Vancouver	rain	7
Venice	fair	10
Vienna	shower	6
Warsaw	fair	0
Washington	sleet	-4
Wellington	fair	20
Winnipeg	sun	-18
Zurich	fair	4



FINANCIAL TIMES
COMPANIES & MARKETS
Wednesday February 9 1994

IN BRIEF

Stora swings back into the black

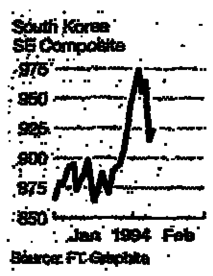
Stora, Europe's biggest forestry group, reported profits of SKr530m ($67m) for 1993, a sharp swing from the SKr1.42bn loss last time. Page 18

Recapitalisation for Crédit Lyonnais
The French government is expected to finalise plans next month for a recapitalisation of Crédit Lyonnais, the state-controlled banking group. Page 19

Futures beat history
Last Friday, in the biggest day in futures industry history, the Chicago Mercantile Exchange turned over 2.5m contracts, exceeding the previous record by nearly 1m contracts. Page 21

Row brews over tea
Indian tea growers are angry about a government move to import tea into the country for blending with locally-grown tea for re-export. They fear the high-quality image of Indian tea will be dented. Page 28

Seoul on a roll



Government intervention, helped by the three-day lunar new year's holiday that begins today, has temporarily halted a recent surge in the Seoul bourse. But analysts believe the finance ministry will have no more success in controlling the market than Canute had in turning back the incoming tide. But the government has only itself to blame for the market's bouyancy. Back Page

Early strategy pays off
Ranbaxy Laboratories, India's second largest drugs company, concentrated on international links 10 years ago. Exports now amount to over 30 per cent of turnover. Page 20

P&O buys two liners
P&O, the shipping, transport and property group, said its US-based subsidiary had placed orders for two superliners. Page 24

3i moves into fund management
3i, the UK's largest investment capital company, has raised a fund for investment in continental Europe in a move that takes it for the first time into the business of managing funds for other institutions. Page 24

Vodafone buys into GMC
Vodafone, the largest cellular phone operator in the UK, has paid £29.18m for a one-third stake in General Mobile Communications, the UK's leading independent mobile telephone service provider. Page 25

Granada ups LWT bid
Granada Group, the UK rental, television and leisure group increased its offer for London Weekend Television. Page 18

Reuters pleases investors
Shares in Reuters Holdings rose by 60p to 1971p after the UK-based financial information and news group combined the announcement of a 4-for-1 share split with strong results and a bullish forecast. Page 18

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)				**PARIS (FFr)**			
Rises				**Rises**			
Asko	1180	+	60	BNP	262	+	7.8
Deutsche Bank	814	+	21.5	Intertechnique	662	+	16
Dresdner Bank	415.5	+	10.3	Radiotechn	518	+	35.4
Karstadt	538	+	12	Roussel-Uclaf	724	+	28
Leifheit	750	+	15	Sagem	3086	+	118
Thyssen	252	+	7.4	Total B	346	+	8.9
NEW YORK ($)				**TOKYO (Yen)**			
Rises				**Rises**			
Allied Signal	77¼	+	1⅞	Brother Ind	524	+	35
America Online	74	+	3½	Central Finance	518	+	33
Sierra On-Line	22	+	2½	Dai Nippon Toryo	439	+	38
Falls				Nintendo	6850	+	360
Pfizer	58⅜	−	3	Toyobo	428	+	35
Schering-Plough	60	−	2¾	Yuasa Corp	680	+	44
Sears	48⅝	−	2¼				

New York prices at 12:30.

LONDON (Pence)				Sheffield Insul	288	+	18
Rises				Stakis	92½	+	6½
AAF	46	+	10	Storehouse	235	+	12
Barratt Dev	288	+	12	Union Discount	189	+	8
Comp Fin Sol	158	+	25	Wilkes (J)	168	+	28
Freeman Grp	242	+	22	Yorks-Tyne T TV	298	+	25
Grosvenor Inns	183	+	12	**Falls**			
Hambro C'wide	86	+	4	Eurotunnel Uts	575	−	18
Kewill Systems	294	+	21	Pentos	29	−	3
LWT	737	+	35	Royal Doulton	273	−	10
P & P	86	+	4				
RTZ	877	+	27				
Reuters	1971	+	60				
Rothmans Uts	462	+	19				

Toyota plummets nearly 50%

By Michiyo Nakamoto in Tokyo

Toyota, Japan's largest carmaker, suffered a 45.7 per cent fall in pre-tax profits in the six months to the end of December in one of the worst business periods in the company's history.

Pre-tax profits plunged to Y83.24bn ($764m), from Y162.34bn, largely as a result of the weak domestic market and the adverse impact of a sharply higher yen.

Operating profits fell by 84 per cent to Y9.34bn – the steepest decline ever suffered by the company. The ratio of operating profits to sales at 0.25 per cent was also the worst the company had experienced. Sales fell by 13 per cent to Y3,987bn from Y4,564bn, the first decline in turnover for seven years.

Toyota's deteriorating financial performance underlines the severity of Japan's economic downturn, the impact of the yen's sharp appreciation against the dollar and the weakness of demand in European markets.

Several of Japan's leading carmakers, including Nissan and Mazda, have suffered heavy losses following three successive years of falling new vehicle demand in the domestic market.

Mr Masami Iwasaki, executive vice-chairman, said Toyota had been able to avoid falling into loss mainly through cost-cutting, which had saved Y70bn.

However, this had been more than wiped out by foreign exchange fluctuations, which reduced operating profits by Y100bn. Every Y1 rise in the value of the Japanese currency against the dollar translated into a loss of Y10bn.

While Toyota expects a moderate recovery in Japan in the second half, it believes weak European demand and the strength of the yen will continue to weigh heavily on second-half profits.

The company is forecasting pre-tax profits of Y200bn for the full year, down from Y286.45bn previously on sales of Y8,100bn against Y10,210bn. The sales forecast is lower than its previous forecast of Y8,700bn made in August, although the pre-tax forecast is unchanged.

Capital expenditure will be lowered to Y240bn from a previously forecast Y280bn and cost-cutting efforts will continue.

Mr Iwasaki said Toyota had no plans to close any production lines – even though its vehicle output is expected to be at about 3.6m units, compared with a peak of 4.2m.

Production adjustments had already been made by cutting overtime and reducing the workforce by 2,000, mainly through natural attrition.

Sears, Roebuck achieves record earnings for year

By Laurie Morse in Chicago

Sears, Roebuck, the US's third-largest retailer and the majority owner in Allstate Insurance, reported record earnings for 1993 but disappointed investors with flat results in the quarter. By midday yesterday the shares were down $2⅛ at $48⅞.

After record losses in 1992, Sears restructured last year, selling its brokerage business, Dean Witter Reynolds, its Coldwell Banker property unit, and a portion of its ownership in Allstate. Sears posted fourth-quarter income from continuing operations, excluding special items, of $544.6m or $1.39 per share, compared with $482m, or $1.29 per share in the fourth quarter of 1992.

Revenues dipped to $14.7bn in the quarter, from $15bn. However, Sears said revenues from continuing operations were up 8 per cent over last year's fourth quarter.

For the year, Sears had income from continuing operations before special items of $1.70bn or $4.36 per share, compared with $1.03bn or $2.78 per share in 1992. Sears last had record earnings in 1987, when net income was $1.63bn. Revenues fell to $50.8bn, from $52.3bn last year. However, Sears said revenues from continuing operations were up 6.5 per cent from 1992. When special items, including a $635.1m gain on the sale of Allstate and $76m in tax benefits during 1993 and losses from insurance claims linked to Hurricane Andrew and restructuring charges in 1992 are considered, Sears had net income of $2.37bn in 1993, compared with losses of $3.93bn in 1992.

Mr Edward Brennan, Sears' chairman, said restructuring saved the company $200m in corporate expenses in 1993, mainly due to lower interest expenses.

"While we are very pleased with the success of the dramatic actions in 1993, we are most excited about the operating performance of our cour merchandising and insurance businesses, the foundation of the new Sears," Mr Brennan said.

Sears Merchandise Group's earnings rose to $751.6m during 1993, from $451.7m, before special charges last year. Allstate had net income of $1.16bn in 1993, and $207.5m in the fourth quarter, compared with a loss of $499.6m in 1992 and a loss of $138.9m in 1992's fourth quarter.

GKN lifts Westland stake to 47% and launches hostile bid

By Tim Burt

GKN, the UK engineering and industrial services group, yesterday launched a hostile £496m ($744m) takeover bid for Westland, the helicopter manufacturer at the centre of a British government crisis eight years ago.

The bid was announced after GKN agreed to acquire for £75m cash the 18.7 per cent Westland stake held by United Technologies (UTC), the US parent of Sikorsky helicopters. When the UTC holding is added to GKN's existing 28.3 per cent stake, GKN will control 47 per cent of the ordinary and convertible shares.

GKN has offered Westland shareholders 290p per ordinary share in cash or loan notes with a partial share alternative, representing a discount on Westland's 307p closing price yesterday. The group said the bid would be partly funded by a 1-for-5 rights issue of non-interest bearing convertible loan stock at 490p each, which would raise £248m.

Sir Leslie Fletcher, Westland chairman, was informed of the move in a dawn telephone call yesterday from Sir David Lees, his GKN counterpart. Westland responded coolly yesterday, calling GKN's overture an "unwelcome offer". It advised shareholders to take no action before it had discussed the offer with Schroders, its financial advisers.

The deal would transform GKN – which already manufactures light armoured vehicles – from a group dominated by automotive components and industrial services into a company in which military sales accounted for the bulk of turnover.

Sir David warned that GKN's pre-tax profits were expected to decline by more than 20 per cent to £97m in the year ended last December 31. He blamed the downturn on weak European demand for vehicle components, £20m in redundancy and reorganisation costs and a further £11m exceptional charge covering the closure of plants run by UES, its jointly owned steel subsidiary.

Lex, Page 16; Swoop for a tempting morsel, Page 15

John Sculley's sorry foray

Mr John Sculley, former chairman and chief executive of Apple Computer, has claimed he was duped into joining Spectrum Information Technologies, and has filed a suit against Spectrum's president, Mr Peter Caserta. Mr Sculley alleges that Mr Caserta's "short-term goal was to reap huge profits by selling large blocks of Spectrum stock driven up in value by the public announcement that Sculley had joined the company". Spectrum said Mr Sculley was "fully aware" of the company's problems and he has disregarded his responsibility to shareholders. Spectrum's shares lost 60 per cent of their value on Monday. Sculley's gem, Page 19

Sheraton trumps Forte bid for Ciga

By Haig Simonian in Milan and Michael Skapinker in London

Sheraton, the international hotels group owned by ITT of the US, last night emerged as the surprise buyer of Ciga, the troubled luxury hotels chain controlled by the Aga Khan.

Sherton's offer of about L900bn ($528m) easily topped the £270m bid from Forte, the UK hotel and restaurant chain, which had for some time been considered the front runner. Forte said it was asked last Monday if it could match Sheraton's offer but decided it would not do so.

Few details of Sheraton's proposal emerged officially, amid surprise among Italian bankers that the group had been prepared to make such a high offer for the loss-making Ciga without looking closely at its books. But the offer is believed to involve a L940bn capital increase – corresponding to Ciga's outstanding short-term bank indebtedness, to be underwritten by its creditor banks.

Assuming they obtain at least 50.1 per cent of the shares, Sheraton would then launch a public tender offer priced at between L720 and L740 a share for the banks' stake and any remaining shares floating on the market.

That would allow the banks to escape with a loss of about 25-28 per cent on their Ciga loans, considerably better than any alternative proposals. Sheraton's proposal would also mean removing from the Ciga creditors any responsibility in the complex legal action under way between the Aga Khan and lenders to Fimpar, his quoted holding company, which controls Ciga.

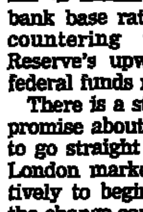
Ciga troubles stem mainly from its high debts, which now exceed L1,000bn, and the recession, which has sliced demand for five star hotel accommodation. The group has also suffered from an imbalanced portfolio of hotels, with too many properties bunched in the same cities.

Attempts to remedy matters by selling some properties where it was over-represented coincided with the recession, and failed to attract buyers at the price levels Ciga expected.

Forte's revised proposal had been made in tandem with the Quantum Fund, controlled by Mr George Soros, the US investor. Forte was to provide £33m and the Quantum Fund £135m. The balance was to have been made up with deferred payments over the next two to three years.

Barry Riley

The ups and downs of interest rates



They do it not by halves but quarters these days, it seems. The Bank of England yesterday dropped into a rare quarter-point mode when it prompted a fall in bank base rates to 5¼ per cent, countering the US Federal Reserve's upward nudge of the federal funds rate to 3¼ per cent.

There is a strong whiff of compromise about the Bank's failure to go straight to 5 per cent. The London markets responded positively to begin with, but in fact the change could be viewed negatively – as implying that the low point for short-term interest rates this cycle may be quite close.

Meanwhile, eat your hearts out, efficient market hypothesisers. It was widely anticipated that the US Federal Reserve was about to raise short-term interest rates by a quarter or half-point. Yet when the news came, the world's securities markets suffered a minor panic. So much for the markets' ability to discount expected changes smoothly.

True, it is possible to argue that all we have seen in the past two or three days is over-active marketmakers chasing shadows. Real money does not appear to have been on the move and indeed the London stock market had almost fully recovered at one stage yesterday before tailing off again. It is slightly worrying, though, that the US Treasury long bond yield should have drifted higher, because this above all is where a tightening might have been viewed positively.

What could justify the jitters? In equities one widely expressed concern is that there is an unusually large quantity of amateur money riding the bull market. Some $280bn of net new money cascaded into US stock and bond mutual funds last year, and spilled over into emerging markets, while household bank deposits fell.

Yet as a paper from the doggedly bullish Goldman Sachs argued last week, private investors are actually rather slow to react to interest rate changes, the usual time lag being at least a year. One might add that a mere quarter-point change would surely scarcely register in the punters' consciousness.

Sophisticated investors may be trying to run ahead of the anticipated panic

The real issue here, though, is that a lot of sophisticated investors may be trying to run ahead of the anticipated panic of the herd. So there may be several minor attempted sell-offs before the retail investors finally get the message.

A possibly more important theme is that there may be an unusually large amount of speculation propping up the securities markets, and more specifically a dependence upon money borrowed at low interest rates. This has been a particular feature of the US bond market, where the banks have been encouraged by the Fed to generate solvency-restoring profits along an exceptionally steep yield curve. In the UK too, last week's banking figures showed a sharp jump in lending to the financial sector during the final quarter of 1993.

Even the doziest players in the US Treasury market have now been given formal notice that they must unwind their positions (though most have been already shifting their strategy for several months now). The quarter-point hike is only a starter, and although the spreads along the yield curve have changed little, they could be dwarfed by potential capital losses. To take the extreme case, the price of the benchmark long bond has dropped by 8 full points since it peaked in October, rather nasty if you are leveraged (though the banks are focused less ambitiously around the five-year dates).

The burden of financing the US fiscal deficit will therefore shift from the banking system to other domestic and international investors. This explains the upward drift in bond interest rates.

There are also the unknown hazards of derivatives. The extraordinary profits earned by some of the players last year gave *prima facie* indications of large discontinuities in the markets. A change of trend could be difficult to handle.

But now the action is switching to the foreign exchange markets. After a year when many currencies slumbered and the army of dollar bulls grew staler and staler, the markets are now faced with the long-awaited relative rate shift as the US raises and Europe continues down.

But we wait to see whether the Bundesbank, having preferred for some weeks to be a wallflower, will join this interest rate tango.

Cost cuts, weak krona help Stora return to the black

By Christopher Brown-Humes in Stockholm

Stora, Europe's biggest forestry group, yesterday reported profits of SKr530m ($67m) for 1993, a sharp swing from the SKr1.42bn loss a year earlier.

The company benefited from cost-cutting, the weaker Swedish krona, and a strong performance from its financial arm. It was able to increase production and deliveries, even though market conditions remained weak and local currency pulp and paper prices were below 1992 levels. The dividend was maintained at SKr6.50 per share. The weaker krona helped lift sales to SKr49.8bn, up 4.4 per cent.

Cost reductions of more than SKr2bn and a hefty one-off gain from the sale of convertibles helped lift operating income to SKr1.38bn from SKr401m. The improvement would have been greater but for Stora's production base in hard currency European countries, particularly Germany.

The improved overall result owed much to a sharp drop in financial expenses to SKr850m from SKr1.82bn. Stora Financial Services lifted profits to SKr802m from SKr279m.

In the fourth quarter, Stora achieved a SKr236m profit, turning round a SKr926m deficit in the same 1992 period. The result benefited from some higher prices, indicating the market had bottomed.

This has increased optimism about prospects in 1994.

Stora said it had finalised terms to sell Tarkett, an international flooring company, to CWB Capital Partners, a London-based acquisition fund, for SKr3.46bn. The group will book a SKr800m pre-tax capital gain on the deal, to be included in its 1994 figures.

Stora's shares climbed SKr7 to SKr462 on its better-than-expected performance.

Reuters lifts profits by 15% and splits shares

By Andrew Bolger in London

Shares in Reuters Holdings, the UK-based financial information and news group, rose by 60p to 1,971p after it combined the announcement of a 4-for-1 shares split with strong results and a bullish forecast for revenue growth.

Pre-tax profits rose by 15 per cent to £440m ($666m) in the year to December 31, while revenue increased by 20 per cent to £1.87bn. When currency changes are stripped out, sales growth was 8 per cent and reached 10 per cent in the second half.

Mr Peter Job, chief executive, said: "We are maintaining price stability for the third year running, barring some upward and downward adjustments which reflect currency movements."

Under the split, each ordinary share will be worth four new shares. Each American Depositary Share will be worth six new shares instead of three. Subject to shareholder approval, dealing will start on April 18.

Earnings per share rose to 72p from 56p under FRS 3, but the previous year's figure was reduced by an extraordinary tax charge above the line. Adjusting for that, earnings grew by 16 per cent. A final dividend of 19.8p raises the total by 23 per cent to 26p.

Details, Page 24; Lex, Page 16

Anheuser-Busch stable in fourth term

By Richard Tomkins in New York

Anheuser-Busch, the biggest US beer company, yesterday marked the end of a lacklustre year by reporting net income of $166.8m for the fourth quarter, little changed from the $161.6m reported last time.

For the full year, it reported net income down to $594.5m from $917.5m, but the latest figure included the effects of a pre-tax restructuring charge of $565m in the third quarter. If all unusual charges were stripped out, the company said, the figures would have shown net income falling to $980.6m from $994.2m.

Budweiser, Anheuser-Busch's leading beer brand, has seen declining sales in recent years.

The group is suffering from widespread price discounting by competing brewers. But new products such as Budweiser Lite helped maintain market share at 44.3 per cent of all US beer sales in 1993.

The company said beer sales and volume growth were hit by slow economic recovery in important selling areas along the US West Coast and aggressive discounting.

In spite of this, it sold a record 87.3m barrels of beer in 1993, an increase of 0.5 per cent over the previous year.

Gross sales rose to $13.19bn from $13.06bn for the full year. Earnings per share, fully diluted, fell to $2.17 from $3.20, but Anheuser-Busch said they would have risen to $3.55 from $3.46 without the effect of unusual charges.

For the quarter, gross sales rose to $3.26bn from $3.12bn while earnings per share rose to 62 cents from 58 cents. Mr August A. Busch III, chairman and president, said the company was pleased with the performance of its premium beer brands in 1993, considering the competitive conditions in the beer industry.

"Budweiser continues to dominate across all demographic segments. Bud Light had another excellent year in 1993 with double-digit growth. Bud Light continues to outpace its major competition, and we believe the brand is well positioned to become the leading light beer brand in the US."

US brewer woos Czech bride-to-be

Patrick Blum reports on Anheuser-Busch's courtship of Budejovicky Budvar

Anheuser-Busch, the world's largest brewer, has come a step closer to winning the bride it always wanted – Budejovicky Budvar, Czech brewers of the famous Budweiser Budvar beer. The two had been kept apart by communism and a long and bitter trademark dispute.

The US company's courtship was made official last month with a Czech government announcement that Anheuser-Busch had been selected as exclusive negotiating partner for the sale of a minority stake in Budvar.

The Czech company makes what many consider the best Czech beer, and one of the world's top quality brands. Since the overthrow of communism in 1989, and Prague's privatisation of state companies, more than 30 brewers including leading European groups have showed an interest in taking a stake in Budvar.

The US company, which claims a 9 per cent share of the world beer market, is hoping to buy up to 34 per cent of the Czech brewer. Mr Jack Purnell, Anheuser-Busch International (ABI) chairman and chief executive, said: "We've had a very promising first session [of talks] with the government."

If negotiations succeed, ABI, the international arm of Anheuser-Busch, will have won one of the most famous Czech corporate names. Decades of legal feuding over the use of the Budweiser trademark will come to an end.

Budweiser, or Budejovicky in Czech, was chosen as the name for his beer by Adolphus Busch, the US company's founder more than a century ago. Later, the use of the same brand name brought the Czech and US brewers into conflict, with two agreements in 1911 and 1939 only partially resolving the dispute which has limited the two companies' access to foreign markets. The American Budweiser can only be sold under the name of Bud in large parts of Europe, while Budvar cannot sell its beer in north and central America.

Mr Purnell said negotiations would deal simultaneously with the trademark dispute and the purchase of a stake in Budvar.

In recent years, ABI has rapidly expanded its activities outside the US with ventures and partnerships in Japan, Britain, Italy, Canada, Ireland and Korea. Last year it bought a 17.7 per cent stake in Grupo Modelo, Mexico's largest brewer for $477m, and a 5 per cent stake in Tsingtao Brewery, China's largest brewer, for $16.4m. In 1992, Anheuser-Busch beer sales reached $7.6bn.

The Budvar brewery is small, producing about 570,000 hectolitres representing about 3 per cent of total Czech beer production in 1992. But with exports of 362,000 hectolitres representing almost 38 per cent of total Czech beer exports, it is the country's leading beer exporter.

With Budvar and a trademark agreement, ABI could expand its penetration of the European market on two separate fronts: by being able to market its own Budweiser without legal obstacles, and by building up Budvar's share of the market among mature drinkers.

The products would not compete. "Bud has a distinctively fresh taste attractive to the young. Budvar has another taste profile. [Drinkers of each] tend not to be the same people. The brands don't conflict with one another at all," Mr Purnell said.

Critics say Budvar will be swallowed up by ABI, which wants to expand markets for its own brands. Others say Budvar should remain in Czech hands. The Czech republic has the world's highest per capita beer consumption. Beer drinking is a popular custom cutting across classes, and the Czechs are proud of their local brands.

So what if the deal doesn't go through. "Well, we haven't been brought to a standstill because of the dispute. Both sides are harassed by it, and both would gain [from a deal]. We've been persistent and peaceful, but the biggest problem is some bad perceptions of our company," Mr Purnell said.

ABI has been wooing the Czech public and government stressing the company's record as an employer and its philanthropic works with donations of $500,000 to the US Business School in Prague, $50,000 to the south Bohemian University in Ceske Budejovice, along with scholarships and training grants.

In full-page advertisements in the Czech press, ABI argued a deal would secure Budvar's future. The Czech Republic would become the centre for ABI's European beer operations. ABI would take a stake in breweries in southern Bohemia if the government merged them. "But Budvar will never be changed," stressed Mr Purnell.

Brau und Brunen, a leading German brewing and soft drink company, has taken a 25 per cent share in Okocim, a listed Polish brewery with about 8 per cent market share and a high profile brand name, writes Christopher Bobinski in Warsaw.

Okocim was told by Brau and Brunen of the share purchase last week. The news surprised the industry which has seen the government barring foreign investors from brewing privatisations.

Changes in Poland's securities laws which come into force next week bring the point at which share purchases have to be referred to the securities commission and the anti-monopoly board down from 33 per cent to 25 per cent. A purchase of 33 per cent would trigger a mandatory bid for Okocim's remaining equity.

However, Brau and Brunen has said it did not intend to increase its share above the 25 per cent which cost the German company an estimated $20m.

Peugeot sales fall 6.2% to FFr145.4bn

By John Ridding in Paris

PSA Peugeot Citroën, the French cars group, yesterday announced sales of FFr145.4bn ($24.6bn) last year, a fall of 6.2 per cent compared with 1992.

The company said the performance demonstrated resistance to the sharp decline in the European car market, which contracted by 15.1 per cent last year, and a strong final quarter.

During the October-December period, Peugeot-Citroën recorded a 13.1 per cent share of the European market, compared with 12.3 per cent for the year as a whole.

Just over FFr61.5bn of the group's total sales came from the French market, a decline of 5.9 per cent. For France and western Europe, the sales figure was FFr71.1bn, a decline of 9.2 per cent.

● Union des Assurances de Paris, the state-owned insurance group slated for privatisation, yesterday announced consolidated sales of FFr140.5bn for last year, an increase of 11.6 per cent compared with 1992.

The strongest growth was achieved in international markets, where turnover rose by 15 per cent to FFr79.4bn. In France, sales increased by 7.3 per cent to FFr61.1bn.

Schering lifts payout despite fall in profits

By Judy Dempsey in Berlin

Group profits for Schering, Germany's pharmaceutical and agrochemical group, last year fell 3 per cent to DM254m ($149.4m) after a 2 per cent rise in sales to DM5.36bn.

In spite of the fall in profits, the group increased its dividend to DM14.22 from DM13 in 1992.

Schering said sales growth was divided evenly between increased volume and the affects of fluctuations in the exchange rates. Pharmaceutical sales rose 6 per cent, widening the share of total group sales to 77 per cent from 74 per cent.

The group expects to lift its earnings over the next few years through sales of Beteseron, a drug used to treat multiple sclerosis patients. Sales for the drug, introduced late last year, totalled DM7m, although the group had expected a turnover of about DM30m, rising to DM300m this year.

Schering last year underwent heavy restructuring following the merger of its agrochemical division with Hoechst in a bid to concentrate on the core pharmaceutical business.

The merger is expected to produce an annual turnover of DM3bn, making it the world's second-largest company in this sector. Hoechst will hold 60 per cent of the shares and Schering the rest.

Degussa sees further gains after strong term

By David Waller in Frankfurt

Degussa, the Frankfurt-based metals and chemicals group which has recently completed the bulk of a rationalisation programme, yesterday reported group earnings up 25 per cent for the three months to December. It predicted further gains for the rest of the financial year to September.

First-quarter pre-tax profits rose by a quarter to DM60m ($35.3bn) on turnover up 5 per cent to DM3.5bn, due mainly to a large increase in earnings from the chemicals division which benefited from rationalisation and improved demand.

● KWU, the power-generation and distribution arm of the Siemens electronics and electricals group, increased turnover by 32 per cent to DM8.7bn in the year to September.

Granada raises offer for LWT

By Raymond Snoddy in London

Granada Group, the UK rental, television and leisure group, yesterday increased its offer for London Weekend Television to about £776m ($1.2bn), or 750p a share.

It came after talks between the two sides broke down on Monday evening. The offer is based on 13 new Granada shares and 100p in cash for every 10 LWT shares – compared with the original six for five all-share offer.

Lex, Page 16

Pfizer shares tumble after profits warning

By Richard Waters in New York

Shares in Pfizer, until recently the US's highest-flying drugs company, tumbled again yesterday as the company issued a muted profits warning for the current quarter.

It also down played the most optimistic expectations of earnings growth for the year as a whole.

Yesterday's comments, made at an analysts' meeting in New York, also dented the shares price of other big drug companies, as investors marked down their expectations of growth in the sector as a whole.

Pfizer first disappointed the market three weeks ago, when it reported a sharp slowdown in sales growth in the final months of 1993, to 2 per cent. With a range of new pharmaceuticals launched since 1989, Pfizer had been expected to do better than its rivals in resisting the effects of price pressures in drugs markets around the world.

Pfizer's shares dropped $3¼ to $58⅝ yesterday. They have fallen 15 per cent over the past three weeks, wiping $3bn off the company's stock market value.

Yesterday, the company said first-quarter results would be "somewhat tempered" by the effects of foreign exchange adjustments and higher research costs. Also, although it said sales growth would be in "the low double digits" this year, it added that there would be no immediate sales rebound after the lacklustre final quarter of 1993.

That had been caused in part by a reduction in inventory levels by drug wholesalers, but there was no indication inventory levels would rise again, it added.

The company also said it expected earnings per share for 1994 to be within market expectations of $4.10-$4.25, although it added it was unlikely to reach the upper end of this range.

Mr William Steere, chairman and chief executive, predicted improvements in operating profit margins of 1.5 per cent this year, and 2 per cent in each of the next two years.

Sculley claims his technology 'gem' was flawed

Louise Kehoe reports on the former Apple chief's resignation from Spectrum and subsequent lawsuit

By resigning as chairman and chief executive of Spectrum Information Technologies, Mr John Sculley fulfilled the predictions of many in the computer industry, who said his decision to jointhe small communications technology company last October was hasty.

After just four months with Spectrum, he abruptly resigned on Monday and filed a lawsuit against Mr Peter Caserta, Spectrum president and former chief executive, alleging Mr Caserta lured him to Spectrum with "fraudulent misrepresentations and omissions".

The lawsuit also alleges a plot by Mr Caserta to reap profits from stock sales after Mr Sculley's hiring sent Spectrum stock soaring.

Mr Sculley is seeking at least $10m in damages, noting his reputation has clearly been sullied by the events of the past four months. The question remains, however, how Mr Sculley, a prominent US business leader, former chairman and chief executive of Apple Computer, and former Pepsi executive, could find himself in such a position.

Industry analysts suggest he was so dazzled by the technology that his business judgment evaporated.

At Apple, Mr Sculley became so enamoured with the potential of Newton, Apple's hand-held personal digital assistant, that he appeared to loose touch with the company's core personal computer business, critics charged.

However, he believed that in Spectrum he had found a technology "gem"; a company with key patents covering technology for linking computers to cellular telephones to enable wireless data communications.

Yet the 10-year-old company, with 1993 revenues of just under $100m, has never returned a profit and has a history of aggressive self-promotion, legal disputes with competitors and problems with regulators.

Mr Sculley "could have had his pick of jobs in the industry" when he left Apple last year, said one former colleague.

But Mr Sculley said he had "caught the Silicon Valley entrepreneurial bug". He saw Spectrum an an opportunity to build a company, and talked of plans to make it as well recognised as Intel, the world's largest semiconductor company or Microsoft, the personal computer software leader.

By his own admission, he "stumbled on to Spectrum". He was entranced by a demonstration of the company's technology, staged by Mr Caserta, at Mr Sculley's Connecticut home. Initially, according to Mr Sculley and Mr Caserta, Spectrum's interest was in licensing its technology to Apple Computer.

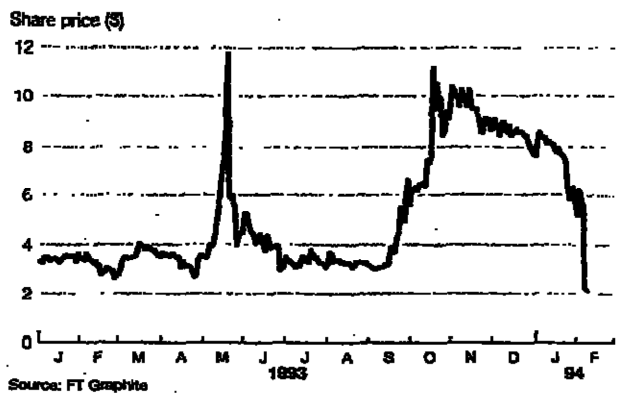
"I never had any negotiations about joining them or anything else until after I separated from Apple," Mr Sculley said in October.

Immediately after his resignation from Apple, however, Mr Sculley flew overnight from California to New York and initiated talks with Mr Caserta about joining Spectrum. Then followed four days Mr Sculley described as "the most gruelling of my life".

Working day and night, with a team of engineers and patent attorneys he hired to examine Spectrum's technology, Mr Sculley drew up an employment agreement with Spectrum. On the following Monday morning he announced he was joining the company.

"Of course, I did my own due diligence before I joined up," Mr Sculley said at the time. But this focused almost entirely on Spectrum's technology and the validity of its patents, a spokesman for Mr Sculley said this week.

Spectrum Information Technologies



Source: FT Graphite

Mr Sculley says he did not know, when he joined Spectrum, that it was under investigation by the Securities and Exchange Commission. Neither was he aware Spectrum had used questionable accounting practices - booking revenues from licensing agreements in advance of receiving payments.

Spectrum asserts, however, Mr Sculley was "fully aware of the circumstances that he now cites as his reasons for departing" both before and during his time at Spectrum.

On Monday, the company restated its earnings to deduct $6.4m from second and third-quarter revenues. The same amount will be added in subsequent periods, the company's new accountants said.

Whether or not Mr Sculley was told of Spectrum's current problems, it seems the company's past dealings should have alerted him. While Mr Sculley says he was not aware of an SEC probe, he did know that Spectrum was facing related shareholder lawsuits when he joined the company.

The SEC's investigation of Spectrum is believed to focus on an episode last year, when Mr Caserta announced the company expected "tens of millions of dollars" in patent royalties from a new licensing agreement with AT&T, Spectrum's stock price soared, then crashed the next day when AT&T challenged Spectrum's claim and said it expected royalty payments to be much lower.

Spectrum had a reputation for aggressive promotion. Its former chairman, Mr Dana Verrill and a former board-member, Mr Gene Morgan, had appeared on television "infomertials" touting the company.

In 1990, the National Association of Securities Dealers removed Spectrum from its listings when its capital fell below required minimums. The company was relisted in 1992 after a stock offering.

It has also had to restate its earnings in the past, due to accounting problems. Last May it made an adjustment for "correction of inaccurate accruals of certain items into income (in 1992)".

However, industry analysts felt Mr Sculley had minimised the damage by his quick departure. Numerous technology companies will still be vying for Mr Sculley's attention, predicted one analyst, "but perhaps he will be more cautious in choosing his next position".

AlliedSignal posts 29% rise in income

By Martin Dickson in New York

AlliedSignal, the US high technology group, yesterday underscored its sharply improved performance with a 29 per cent rise in fourth-quarter net income, a stock split and a 16 per cent dividend increase.

Its share price and profits have soared since Mr Lawrence Bossidy, formerly at General Electric, took over as chairman in 1991 and began a wholesale restructuring.

AlliedSignal reported earnings of $178m, or $1.25 a share, up from $138m, or 98 cents, in the same period of last year. Sales rose from $3.05bn to $3.06bn and the operating margin rose from 6.1 per cent to 7.5 per cent.

Since its shares have risen 193 per cent since the start of 1991 it is making a 2-for-1 stock split, and making shares available for this by redeeming a stock purchase scheme, or poison pill, set up to guard against a hostile takeover.

Shareholders will get a special 5 cents a share payment in addition to the first-quarter dividend of 29 cents. The company also plans to increase the dividend to 33¾ cents a pre-split share from the second quarter.

For the full year, the group reported net income of $411m, or $2.90, against a loss of $712m, or $5.05, after accounting changes.

French bank close to shake-up

By Alice Rawsthorn in Paris

The French government is expected to finalise plans by the end of next month for a FFr3bn to FFr4bn ($508m-$678m) recapitalisation of Crédit Lyonnais, the state-controlled banking group.

Mr Jean Peyrelevade, who last year was appointed chairman of Crédit Lyonnais with a brief to stabilise the bank following the aggressive expansion strategy pursued by Mr Jean Yves Habérer, his predecessor, has for months been in discussions with the economy ministry over the recapitalisation.

Crédit Lyonnais declined to comment on a report in yesterday's Les Echos, the French financial newspaper, that the recapitalisation would be completed before the announcement of its 1993 results in late March. However, government officials indicated that it should be concluded over the next few weeks.

The recapitalisation follows months of uncertainty for Crédit Lyonnais, which has been clouded by controversy over the write-offs left by Mr Habérer's loans policy. It fell into a net loss of FFr1.8bn in 1992 and made a net deficit of FFr1.05bn for the first half of 1993 when its capital ratio slipped to only just above the legal minimum of 8 per cent.

Mr Peyrelevade is expected to make further hefty provisions for 1993 to clean up the balance sheet in preparation for Crédit Lyonnais's privatisation. Analysts suspect that this would take the capital ratio below the minimum.

The loss for 1993 could be FFr3bn to FFr4bn "which suggests that Crédit Lyonnais will need a capital injection of the same order", said Mr Stephane Arrouays, European banking analyst at BZW Securities.

The French government, under fire from the European Commission over its latest FFr2.5bn recapitalisation plan for the Bull computer company, is thought to be anxious to restrict its direct capital injection into Crédit Lyonnais to under FFr4bn.

Other options include accelerating Crédit Lyonnais's asset sales and floating off FFr25bn to FFr28bn of its property in a newly-formed state-controlled company.

A similar scheme was implemented before the privatisation of the Crédit Commercial de France banking group in 1987.

Caterpillar in Russian joint venture deal

By Andrew Baxter

Caterpillar, the world's biggest producer of construction equipment, is forming a joint venture company to produce construction machinery components in St Petersburg.

The venture, Nevamash, will be 65 per cent owned by Caterpillar, with the remaining shares held by Kirovsky Zavod, a St Petersburg-based manufacturing company. No other terms were disclosed.

The agreement comes after a year of expanded activity by Caterpillar in the Commonwealth of Independent States, and the signing of three engine-related joint ventures.

The latest deal, however, marks its first non-engine venture in the CIS.

Molson links hardware side with US warehouse

By Bernard Simon in Toronto

Molson, the diversified Canadian brewing group, has defused a potential threat to its retail hardware business by forging a partnership with Home Depot, the US retail warehouse operator.

Home Depot will pay C$200m (US$149.2m) for a 75 per cent stake in the joint venture, to be known as The Home Depot Canada. Molson will hold the remaining 25 per cent.

Home Depot Canada will take over and expand the Aikenhead's chain of home-improvement warehouse stores currently wholly-owned by Molson. Aikenhead's has seven outlets, each with about 125,000 sq ft of selling space, and stocking some 35,000 items.

Aikenhead's has operated without serious competition, but faced a threat from Home Depot, which had planned to set up its own operation in Canada.

Mr Bernie Marcus, Home Depot chairman, said the deal with Molson provided an opportunity to penetrate the market "more quickly and more profitably".

The partnership aims to expand Aikenhead's to 50 outlets, including seven new stores within the next 12 months.

Home Depot, with 269 stores in the US, is the latest of several US warehouse-store operators to move into Canada. With huge volumes, direct deals with manufacturers, and cheap premises on the outskirts of cities, they are able to undercut traditional retailers.

ANA launches restructuring plan

By Paul Abrahams and Michiyo Nakamoto in Tokyo

All Nippon Airways, Japan's second largest carrier by turnover, yesterday announced a long-awaited restructuring plan designed to increase operating profits by Y26bn ($239m) in 1994-95. ANA made post-tax profits of Y2.4bn on sales of Y808bn during the year to March 1993.

ANA said turnover should be boosted by transferring about 20 per cent of planning and administrative staff to sales and marketing positions. No decisions had been made about new routes, acquisition of new aircraft and capital investment, it added.

The plan includes a 10 per cent reduction in staff through reduced recruitment, natural attrition, and the introduction of contract employees for some cabin positions. The company expects to have trimmed the workforce by 1,500 by March 1996. It stressed there would be no compulsory redundancies.

Mr Seiji Fukatsu, president and chief executive, said: "The global slump in demand for air travel, continued recession at home and increased competition, have left ANA facing the toughest challenge since its foundation." The company said it expected turnover to fall during the 12 months to March by 3 per cent to Y782bn, and was cautiously optimistic about keeping in the black.

Separately ANA announced the conclusion of a deal with its rival, Japan Air Lines, to co-operate in a number of areas, including maintenance facilities for the Boeing 777 jets the two companies are buying.

This is the first time the two companies, which have been fierce competitors, have formed a major alliance on technical matters and reflects the growing need each faces to cut costs in the face of the industry slump.

The agreement is expected to save Y8bn to Y9bn over a five-year period, the companies said. Both JAL and ANA are undergoing cost-cutting exercises in an effort to reduce their high costs which have damaged their competitiveness amid the slump in business and first class air travel, particularly among Japanese leisure and business travellers.

Under the agreement, the airlines will jointly purchase parts for the Boeing 777, which will enter their fleets from 1997, as well as the Boeing 747 and 767.

The two airlines will also co-operate in repairing parts and in the development and preparation of technical and staff training manuals, and will share hangar space and other technical facilities such as engine test cells they said.

"We're both in the same boat. We have huge inventories of spare parts and pay enormous rents for hangar space," JAL said.

The deal comes a week after JAL decided to pick the same Pratt & Whitney engines as ANA for the 777.

Highveld Steel checks four-year profit slide

By Matthew Curtin in Johannesburg

Pre-tax profit at Highveld Steel and Vanadium, the Anglo-American owned metals producer, has advanced 16 per cent to R86.1m ($25.1m) in the year to December 31, against R74.4m in 1992. The result marks the end of a four-year slide in profitability.

An improved total dividend of 50 cents is declared, compared with 45 cents last time. Highveld has offered a scrip alternative – taken up by controlling shareholder the Anglo American Industrial Corporation – to conserve its cash resources as it continues to finance its 33 per cent share of the R2.5bn Columbus Stainless Steel expansion project.

Mr Leslie Boyd, chairman, said resurgent domestic demand for steel – associated with the construction of a number of large capital projects and renewed economic growth – improved export steel prices, lifted by good demand from China, and the rand's weakness against the dollar were the main features of the year.

Turnover rose to R1.69bn from R1.48bn, with about half of sales derived from steel operations and the remainder spread between the group's ferro-alloy, aluminium can and stainless steel interests. Mr Boyd said most of Highveld's facilities were operating at or near full capacity, with the exception of its Vantra vanadium plant.

A higher tax charge offset the improved operating performance, so that distributable profit before abnormal and extraordinary items slipped to R69.3m from R70.8m, equivalent to 78.3 cents against 80 cents a share.

However, Highveld benefited from a one-off R57.9m deferred tax credit, related to the reduction in the corporate tax rate in 1993, and R23.5m in proceeds of the sale of one-sixth of its original stake in Columbus to the state-owned Industrial Development Corporation.

Bottom-line income jumped to R150.7m from R76m.

Indian group finds cure for investment lethargy

Ranbaxy Laboratories is well placed to capitalise on government reforms, writes Stephan Wagstyl

Mr Parvinder Singh, chairman of Ranbaxy Laboratories, India's second-largest drugs company, started building international links long before they became fashionable in India.

Examining the success of the large western multinational pharmaceutical companies, he decided in the early 1980s to concentrate on exports and seek foreign partnerships. Ten years before Mr P.V. Narasimha Rao, the prime minister, embarked on his widely-praised liberalisation, Mr Singh was already establishing ties around the world.

Today, Ranbaxy's exports amount to over 30 per cent of its turnover; by the year 2000, they are planned to rise to 45 per cent.

The group has a trading company in Hong Kong, joint venture manufacturing plants in Nigeria, Malaysia and Canada, and another under construction in southern China. It is talking to potential partners for joint-venture marketing companies in the US and in Europe. It has an agreement with Eli Lilly of the US for the sale of Eli Lilly products in India.

To help fund these ventures, Ranbaxy plans to tap international markets this spring with a $100m equity issue.

The family-owned company has suffered from its share of the in-fighting which has hit a number of Indian business families. Mr Singh, aged 51, took control of Ranbaxy from his father Mr Bhai Mohan Singh, the company's founder. However, Mr Singh senior tried to retain an influence over Ranbaxy long after he handed over day-to-day management to his son in the early 1980s. Unlike some other family rows, however, these conflicts have not prevented Ranbaxy from growing faster than any other leading Indian drugs group.

With sales of Rs5.6bn ($180.6m) in the year to March 1993, and pre-tax profits of Rs770m, Ranbaxy is still small by the standards of the western drugs companies which dominate the international markets. Mr Singh, however, is convinced that by exploiting the right niche opportunities he can compete with the leaders, even in industrialised country markets.

The key to his plan is the fact that patents on important internationally-known branded drugs expire in the next few years. They include drugs in the two areas in which Ranbaxy has specialised: antibiotic preparations made from flouroquinolones, and anti-bacterial medicines based on cephalosporins.

Mr Singh says both drugs are reasonably difficult to make – so western groups wanting to compete with the former patent-holders will value Ranbaxy's techniques.

> **"Now that the country is opening up, in the next five to 10 years there will be a change in the industry. We will become more research minded."**

Mr Singh faces some formidable hurdles. First, the Indian pharmaceuticals market has long been squeezed by strict government price controls, designed to bring cheap medicines to the poor. These have limited the industry's profits, and so its capacity to invest in research.

Also, operating under tightly-regulated conditions, it has had little need to develop high-quality marketing skills. While the government is considering easing restrictions, drugs companies do not expect radical changes in the regime.

Moreover, Indian law has until now not acknowledged patents on products, only on processes. So, Indian companies have been free to copy western drugs simply by devising different ways of producing them. This has done nothing to foster competition in product research and development.

At the same time, western companies have had every reason to be cautious about sharing know-how.

Mr Singh says Ranbaxy has coped with these conditions better than other Indian companies by not neglecting investment in improving production and marketing.

In the 10 years to March 1993, the company's net asset rose from Rs141m to Rs630m. Its plants in India and abroad are modern and have won official approval from standards authorities in western countries, including the US's tough FDA.

The emphasis on internationalisation has permeated the whole company, says Mr Singh. "Everyone has it at the forefront of their mind not to be satisfied with success in the Indian market, but to aim for world markets," he says.

Mr Singh says Ranbaxy has also distanced itself from other Indian drugs companies by advocating that India should accept western countries' demands and protect products as well as processes. This may now be inevitable, as India has accepted the conclusions of the Uruguay Round of Gatt trade talks, in which the participants agreed to strengthen patent laws.

However, it may take some time for the laws to be enacted, and for the enforcement agencies to be established.

Mr Singh argues that product patents are in Indian companies' long-term interest: only such patents will encourage the Indians to develop their own products.

Mr Singh is sure that India has the potential to become an innovator in pharmaceuticals, given the quality of research engineers and the success of Indian emigrants in other countries.

"We have the right ingredients for success," says Mr Singh, who himself has a doctorate in pharmacy. "Deep-down we have an inquiring mind-set. Now that the country is opening up, in the next five to 10 years there will be a change in the industry. We will become more research minded."

Thai feed producer advances

By Victor Mallet in Bangkok

Charoen Pokphand Feedmill (CPF), the listed Thai agro-industry company of the multinational CP group, yesterday announced a 4 per cent rise in net profits, to Bt1.2bn ($47.2m) last year from Bt1.15bn in 1992.

The company said it expected higher revenues in 1994 from prawn feed, which already accounts for more than 60 per cent of CPF's sales. Thailand is the world's largest producer of farmed shrimp, and the feed market is expected to grow 15 per cent in 1994.

CPF is planning to build a third prawn feed plant in Thailand, and is considering investments in Vietnam, Mexico and the Indian sub-continent.

CPF earnings per share were Bt10.01 for the year, up from Bt9.59 the year before. Revenues and other figures have yet to be released.

Bangkok Agro-Industrial Products and CP Northeastern, CPF subsidiaries, both announced lower profits.

BAP's net profit fell to Bt104.4m from Bt118.4m, while CPNE's was down to Bt84.2m from Bt88.9m.

CPF also holds 5 per cent of TelecomAsia, the recently-floated CP company installing 2m new telephone lines in Bangkok.

Commonwealth Bank surges 32% to A$318m midway

By Nikki Tait in Sydney

Commonwealth Bank of Australia, which has been partially privatised over the past three years but is still 50.1 per cent government-owned, yesterday provided further evidence of the recovery in the Australian banking sector. It reported a 32.1 per cent rise in after-tax profits in the six months to end-December.

CBA said it made a net profit of A$317.9m (US$228m) in the period, compared with A$240.7m a year earlier. Earnings per share were 35.5 cents, up from 27.8 cents, and the interim dividend goes up by 4 cents to 24 cents.

CBA admitted it had been a mixed half-year. Competition in the mortgage market, the pressure on margins following the general reduction in interest rates, and low levels of demand for business finance hampered progress.

As a result, interest income fell by just over 10 per cent to A$3.04bn, and operating profit slipped to A$2.13bn, compared with A$2.25bn in the previous year.

The interest spread during the half-year was 3.34 per cent, against 3.61 per cent, while the interest margin dropped by almost 10 per cent, to 3.86 per cent.

However, the boost to profits came from a much lower charge for bad and doubtful debts. This totalled A$182.9m in the six months, against A$346.5m last time.

By the end of the period, CBA's net non-accrual loans stood at A$1.29bn, down 27.3 per cent on the A$1.77bn at the end of 1992.

CBA said staff expenses were stable at A$826.7m, with some initial savings from the bank's operational restructuring offset by a resumption of superannuation payments last July.

Looking forward, CBA said the improving economy should further help the bad debt situation, and increase business demand for finance. However, it warned that "strong competitive pressures . . . will continue".

"The contraction of revenue has stabilised in the past six months, but the constraints on net interest income will remain in the short-term at least," said Mr David Murray, managing director. The outcome for the full year, he added, should be "satisfactory".

Active year for Australian broker

By Nikki Tait

High levels of stock market activity helped McIntosh Securities, Australia's only quoted stockbroking firm, to a A$9.6m (US$6.9m) profit after tax but before abnormals. McIntosh is the product of a merger with the Australian operations of Britain's Baring Securities.

The figure compares with a loss of A$3.1m in the same period of 1992. Operating revenues surged by 67 per cent to A$58m.

McIntosh said that, on a calendar year basis, 1993 was its most profitable trading period since 1989 – a result attributed partly to "the buoyant trading conditions in the securities industry," and partly to internal operational changes.

The wave of new issues coming to the stock market also helped push up the results.

An abnormal profit of A$12.1m from the sale of Equinet alsohelped, leaving profits after tax and abnormals at A$21.7m, compared with a loss of A$4.34m a year ago.

INTERNATIONAL COMPANIES AND FINANCE

Gibraltar group builds 7% stake in Montedison

By Haig Simonian in Milan

Shares in Montedison, the Italian industrial group which is part of the troubled Ferruzzi Finanziaria (Ferfin) holding company, rose by L11 to L1,197 yesterday after news that a mysterious buyer now controlled almost 7 per cent of the stock.

The admission came from Codelouf, a little-known Gibraltar-based concern operating out of London. A lawyer acting for Codelouf said it would own 4 per cent of Montedison's voting shares at the end of the current stock market account, ending February 28.

Codelouf, whose ultimate owners are unknown, has also acquired about 380m Montedison share warrants, accounting for a further 2.9 per cent of the voting capital on conversion.

The news goes some way to explain the surge in Montedison's share price since shareholders and bank creditors agreed on a restructuring plan late last year. The restructuring, which has seen Ferfin's stake in Montedison fall to about 30 per cent from around 48 per cent, also involved one of Italy's largest share and warrant issues.

Rather than being left to the underwriters – largely made up of Montedison's leading bank creditors – the issue was strongly taken up, and the group's stock has powered ahead on the back of extremely high daily trading volumes.

The high turnover and steadily rising share price have triggered speculation about stake building, possibly ahead of a bid. Montedison is Ferfin's main industrial operation, and controls a number of important subsidiaries such as Montecatini (chemicals), Eridania Béghin-Say (sugar) and Edison (energy).

Among potential raiders are the Fiat-controlled Gemina holding company, possibly in conjunction with Mediobanca, and Mr Sergio Cragnotti, a former Ferruzzi executive, who now runs an independent merchant bank. All have denied stake building.

Earlier this month, Italy's Consob stock market watchdog confirmed the extraordinary volume of trading in Montedison shares, but said no shareholder had yet reached 2 per cent of the capital, at which stage a formal announcement must be made.

Non-defence business grows at Lockheed

Lockheed, the US aerospace group, said its non-defence businesses grew to 36 per cent of its total sales in 1993, up from 33 per cent in 1992, Reuter reports.

Sales to foreign countries for the year ended December 26 1993 rose to 13 per cent of the total, against 8 per cent a year earlier.

In the fourth quarter, the defence industry group earned $135m, or $2.13 share, on sales of $3.7bn, compared with net income of $119m, or $1.95 a share, on sales of $2.9bn.

Mr Daniel Tellep, chairman and chief executive, said: "1993 was an outstanding year for Lockheed. We had a solid increase in earnings, generated substantial cash flow and significantly reduced outstanding debt."

He added: "Our strong cash flow and rapidly improving debt position give us the flexibility to explore other means to enhance shareholder value, including strategically and financially attractive acquisitions."

He said the company reduced its outstanding debt in 1993 by $400m and by the year-end, its net debt to capital ratio was 42 per cent, against 46 per cent in the first quarter.

In 1993, Lockheed acquired Lockheed Forth Worth to heighten its position in the military aircraft market. The acquisition was a primary factor in year-over-year sales and earnings growth, Lockheed said.

"With a firm backlog of nearly 600 F-16 tactical fighter aircraft, the Forth Worth company will continue to have a very positive influence on our future earnings and cash flow," Mr Tellep said.

At the year-end, total order backlog was $28.9bn, nearly 50 per cent over the $19.4bn backlog at the end of 1992.

In the full-year, the group recorded net profit of $422m, or $6.70 a share. This compares with a loss of $283m, or $4.58, for 1992 after a one-time accounting charge.

Excluding the charge, there would have been a net profit of $348m, or $5.65 a share, for 1992.

Bonanza for Chicago exchanges

Surging volumes fuel the profit-sharing debate, says **Laurie Morse**

Mr Jack Sandner, chairman of the Chicago Mercantile Exchange, toasted a year of record volume in December with the prediction that "under the right conditions, like the Fed changing its interest rate policy, the roof could blow off this place".

Last Friday the Fed struck, reversing its five-year-old policy of easier credit, and Mr Sandner got his volume explosion. In the biggest single day in futures industry history, the CME turned over an estimated 2.5m contracts, exceeding the previous record by nearly 1m contracts.


Jack Sandner: got his volume explosion last Friday

The surge of business at the CME, which was echoed in the financial futures pits at the its big futures rival, the Chicago Board of Trade, and in over-the-counter interest rate swaps dealings, came as money managers rushed to re-adjust their interest rate hedges.

Since interest rate risk products account for more than 80 per cent of their business, this upsurge in volatility was a bonanza for the two big Chicago futures exchanges. But it not only translates into higher income for the exchanges: it is bound to accelerate the debate over who gets to share in those profits.

Unlike their much newer European counterparts, the CBoT, the CME and the New York Mercantile Exchange (Nymex) are owned by their individual members, for the most part a tightly-knit cadre of independent futures traders and trading companies.

The exchanges are non profit-making entities, organised more like private clubs than businesses. Members benefit from exchange success indirectly. They do not collect dividends from the exchange.

When fees exceed expenses, exchange profits are invested in the exchange or put into an equity fund. To this end the CME last year spent $28m to double the size of its trading space and is investing $20m to upgrade trade clearing technology. The CBoT and the Nymex each have multi-million dollar building plans in the pipeline. Members' equity at the CBoT topped $128m last year, and was over $100m at the CME.

Exchange leaders are now looking for a way to unlock some of those dollars. Mr Sandner believes the inability to distribute profits discourages investment in the exchange. At the same time, the CME's success in the form of seat prices is keeping new blood away. Seats, changing hands for $650,000 or so, are beyond the pocket of young traders.

He thinks a profit-making structure that separates trading rights from equity ownership, and prices them separately, would benefit the exchange, and has ordered a comprehensive examination of the issue.

The plan looks set to be controversial in that it could eventually end floor trader control over exchange governance. However, the promise of cash returns – dividends – could dispel any exchange dissent.

At the CBoT, an internal study last year criticised the exchange for strategic blindness and disorganised governance. Booz Allen & Hamilton, the management consultancy, has studied alternatives to the existing operating structure in the wake of that report, and will produce its findings later this year.

Mr Daniel Rappaport, chairman of Nymex, has asked the exchange's lawyers and investment bankers to draft a for-profit ownership plan. Having a means to distribute exchange profits is important, he says, because the interests of the exchange are no longer tied exclusively to the floor.

Nymex, the central marketplace for world energy trading, sits at the edge of an information highway it is anxious to explore. It already has a computerised after-hours trading system, Access, and will soon launch Enersoft, an electronic information service for the natural gas industry. To support these off-floor investments, Mr Rappaport says, members must be able to share in their profits.

Mr Rappaport says the switch to profit-making status, long avoided because of its income tax liabilities, will not change exchange ownership. "We are not intending to go public," he says. "The same people will own the exchange."

However, he admits that the trading and ownership rights now bound into a Nymex membership could be "unstapled" some time in the future.

Plans for dividend-paying futures exchanges, however, could run foul of an important constituency – the exchanges' public customers. Mr Hal Hanson, chairman of the Futures Industry Association, a trade group for broker-dealers who represent public customers, contends that rather than pay dividends to self-interested traders, exchanges should lower customer trading fees and other costs.

"These exchanges ought to be in business to meet their customers' requirements," Mr Hanson says. "If they're successful doing that it has an enormous benefit to the floor trader, because it is the public orders that make this trading system work."

Polypropylene venture probed

By Andrew Hill in Brussels

A chemicals joint venture between Royal Dutch Shell and Montedison, the industrial arm of the collapsed Ferruzzi empire, could dominate the technology for producing polypropylene in Europe, the European Commission said yesterday.

The Commission opened an in-depth inquiry into the $6.6bn joint venture to find out whether such dominance could hamper competition in the polypropylene sector.

Brussels officials said the companies' technology – Spheripol developed by Montedison and Unipol developed by Shell and Union Carbide of the US – was used by 70 per cent of the world's polypropylene manufacturers.

However, Shell said it was querying the Commission's official statement on the investigation because Unipol was not covered by the deal, which brings together most of the two companies' polyolefin activities.

The inquiry could last up to four months, further delaying a deal which was first discussed in September 1992. Talks were first held up last May by the collapse of the Ferruzzi family's business empire, and only went ahead when the second phase of a restructuring plan was agreed before Christmas.

Both Shell and Montedison said yesterday they had expected the Commission to open an in-depth inquiry into the deal, because of its size – the joint venture would become the world's largest polypropylene manufacturer – and complexity. If the Commission decides the venture is anti-competitive it can block it or, more likely, ask for the deal to be amended.

SAS to sell Chilean airline stake

By Christopher Brown-Humes in Stockholm

Scandinavian Airlines System (SAS) is near to finalising a deal to sell its 42 per cent stake in LanChile, Chile's leading airline. The shares could change hands for around $19m.

SAS said the stake was no longer strategically important following the collapse of its plans to merge with Swissair, Austrian Airlines and KLM Royal Dutch Airlines in the so-called Alcazar project. It stopped flying to South America in January 1992.

The holding is being bought by two Chilean investors, the Cueto family and Mr Boris Hirmas, who already own 20 per cent of the airline. The Chilean government is expected to sell its 22 per cent holding in the airline soon.

SAS said the disposal would produce a small capital gain. The move is not connected to its broader restructuring plan which aims to cut costs by SKr2.5bn ($313m).

● Skandinaviska Enskilda Banken, Sweden's leading commercial bank, is selling three finance subsidiaries to GE Capital, part of the General Electric group of the US.

The units all belong to the bank's FinansSkandic subsidiary and have total assets of SKr5.8bn. The businesses being sold are SkandicBilfinans, a vehicle financing unit; Vendax, a computer leasing specialist; and Nordic Finans, which concentrates on office and data equipment.

Japanese developer files for protection

By Emiko Terazono in Tokyo

Sanwa Tatemono, a Japanese property developer, has filed for court protection under the bankruptcy law with debts totalling Y124.3bn ($1.14bn), the largest financial failure in three months.

The decision by the company, which does not have a stock exchange listing, will be a serious blow to its creditor banks, including Nippon Trust Bank (NTB), Mitsui Trust and Banking, and Sakura Bank.

According to Teikoku Data Bank, the private credit research agency, NTB, the company's largest investor, has over Y30bn in loans and loan guarantees.

The bank expects to write off the bulk of its loans to Sanwa, which is unrelated to Sanwa Bank, and intends to avoid falling into the red by covering the losses incurred with proceeds from stock sales.

However, analysts fear such sales will depress NTB's unrealised gains on its stock portfolio, which totalled Y65.4bn at the end of September last year.

Sanwa invested heavily in office buildings, golf course developments and resort development projects in Perth, Australia during the late 1980s. However, the plunge in asset prices and the subsequent economic downfall hurt demand, leaving the company with mounting debts.

● Hakuhodo, Japan's second-largest advertising agency, reports non-consolidated pre-tax profits for the year ended November, its first profit in four years.

The company posted a 10.8 per cent pre-tax profit rise, to Y4.72bn, in spite of a 5.8 per cent fall in sales, to Y526.3bn. It was the third consecutive yearly fall in sales, and was blamed on cuts in advertising costs at Japanese corporations.

After-tax profit fell 55 per cent to Y207bn due to special losses stemming from an increase in pension payment reserves.

For the current year to November, the company expects pre-tax profits to halve to Y2.48bn, on unchanged sales.

INTERNATIONAL CAPITAL MARKETS

Gilts surrender early gains after buyers fail to materialise

By Antonia Sharpe in London and Frank McGurty in New York

UK government bonds shot up by more than one point immediately after yesterday's unexpected quarter point cut in bank base rates as traders scrambled to cover short positions.

However, they lost their gains as hopes of follow-through buying failed to materialise. By the end of the afternoon long-dated gilts were around a ½ point lower but the shorter end showed gains of just under a ½ point.

Analysts attributed the lack of buying interest to sterling's weakness, which put off international investors, and to the domestic political situation which had taken the gloss off the rate cut. Some feared that the recent political difficulties of the ruling Conservative government would hang over the market for some time.

Mr Adam Chester, international bond strategist at Yamaichi International, said yesterday's rate cut had also raised fears in the market that it might be the last in the UK's current interest rate cycle.

However, Mr Roger Bootle, chief economist at Midland Global Markets, said he would be surprised if it this was the last rate cut, especially in view of comments by Mr Kenneth Clarke, the chancellor of the exchequer, that future interest rate cuts were likely to be of a similar size to yesterday's ¼ point cut.

"Yesterday's ¼ point cut will do next to nothing to help the economy so it must be seen as part of a continuing package of rate cuts," said Mr Bootle.

In his view, the UK authorities must be keen to show the market that interest rates could come down in the UK despite last week's rise in US interest rates. Furthermore, the rate cut appeared to be justified by the Bank of England's favourable inflation report which was published yesterday.

The March long gilt future on Liffe stood at the day's low of 116 towards the close of trading, down ½ point on the day and down from the day's best level of 117$\frac{19}{32}$.

GOVERNMENT BONDS

■ German government bonds and futures also gave up their gains yesterday as the odds stacked up against an early cut in German interest rates. The March bund future on Liffe fell 0.13 point to 98.91 in the late afternoon, down from the day's high of 99.37.

Traders said the release yesterday of better-than-expected jobless data for January, the Bundesbank's decision to set a tender at an unchanged fixed rate of 6 per cent, and the D-Mark's weakness had led the market to believe that the Bundesbank would delay any interest rate reductions until March.

The very long end of the market was also put under pressure by the government's decision to increase volume in the 6.25 per cent 2024 bund by DM3bn. The yield on the 30-year bund rose to 6.45 per cent from 6.38 per cent on Monday.

Mr André de Silva, analyst at PaineWebber, noted that the 30-year bunds were now yielding 59 basis points more than 10-year bunds, which compared with spreads of 57 basis points in the Netherlands, 56 basis points in Italy and 54 basis points in France.

■ French government bonds traded in a narrow range as the rate cut in the UK was offset by the Bundesbank's announcement of an unchanged repo tender.

The March notional bond contract lost 0.38 point to 128.68 in the late afternoon, down from an intraday high of 128.94.

■ Japanese government bonds and futures showed little change from their Tokyo levels in European trading hours as dealers digested the contents of the government's Y15,250bn package of tax cuts, government spending and loans, designed to pull the economy out of recession.

The March future, which had risen just over a ½ point in Tokyo, traded around its Tokyo closing level of 114.30 in the afternoon in London. The yield on the benchmark JGB no 157 stood at 3.48 per cent in London, unchanged from its final level in Tokyo.

Mr James Greener, analyst at Toyo Trust International, said that although the market impact of the fiscal package had been broadly neutral, a likely consequence would be larger and more frequent auctions by the Ministry of Finance.

He expected the next Y600bn auction of four-year paper to be announced today with a coupon of 2.8 per cent.

"The market is likely to cope because there is plenty of cash on deposit but it needs to be teased out with a decent coupon," Mr Greener said.

■ Prices on short-dated US bonds held steady ahead of the Treasury's afternoon auction of new three-year notes, but concern over inflation brought weakness to the long end of the yield curve.

By midday, the benchmark 30-year government bond was $\frac{11}{32}$ lower at 97$\frac{21}{32}$, with the yield rising to 6.411 per cent. On the short end, the two-year note was unchanged at 99$\frac{1}{32}$, to yield 4.40 per cent.

The market's sights were focused squarely on the Treasury's $40bn quarterly refunding operation, set to begin yesterday afternoon with the sale of $17bn in three-year securities.

Demand for the new issue was uncertain, with the possibility of the Federal Reserve nudging short-term interest rates still higher in the coming weeks.

However, the short end began to stabilise in the hours before the auction. The yield on the three-year note was at 4.714 per cent, against 4.55 per cent when the sale was announced last week.

Traders believed the market could absorb the fresh supply with the higher rate of return.

The inflation-sensitive long end did not fare as well. With January producer price data due out on Friday, the sale of $11bn in new 30-year securities tomorrow could present an obstacle.

The market was fearful the report would contain more bad news on inflation, which would undercut the value of the long bond.

Large deals line up from South-East Asia region

By Sara Webb

The flood of equity-linked international offerings from South-East Asian companies shows no sign of abating, with large deals lined up from Indonesia and Thailand.

Indofoods, Indonesia's largest food company which dominates the Indonesian instant noodle market, is planning to launch an international equity or equity-linked offerings for a total of up to $800m this spring, investment bankers said. UBS has won the mandate for the deal.

INTERNATIONAL EQUITY ISSUES

Meanwhile, Bangkok Bank, Thailand's largest bank, launched a $400m 10-year convertible Eurobond issue earlier this week which is due to be priced later this month.

Aokam Perdana, the Malaysian timber company, is planning a $125m, 10-year convertible Eurobond issue, which will raise money to refinance its existing borrowings as well as providing new funds. Details of the issue have not been finalised. Jardine Fleming has been appointed lead manager.

While there have been plenty of Thai convertible Eurobonds in recent months, few Malaysian companies have taken the opportunity to launch such issues. Asian equity specialists point out that this partly reflects the quite favourable financing opportunities in the domestic market.

Aokam was quoted on AP-Dow Jones saying the issue will allow it "to access the currently favourable market for Asian Euro-convertibles and to diversify its funding sources".

Abbey National in $1bn FRN offer

By Sara Webb

Floating rate notes were the flavour of the day in the international bond market once again, as Friday's quarter-point rise in US short-term interest rates continued to stimulate investor interest in this particular sector.

Looking ahead, syndicate officials said the market was preparing for a handful of large global straight bond issues, including a $750m deal for the National Bank of Hungary and a $750m offering for the Asian Development Bank.

Abbey National launched a $1bn five-year FRN with a coupon of three-month Libor minus 6.25 basis points. The bonds were priced at 99.71 to give a yield of three-month Libor, currently quoted at 3¼-3$\frac{5}{16}$ per cent.

Mr Jonathan Nicholls, Abbey's director of corporate finance and capital markets, said the Fed's move had provided an obvious opportunity to do a floating rate issue, adding that investor demand for FRNs has been strong in recent months.

INTERNATIONAL BONDS

Goldman Sachs, lead manager for the deal, said it had wanted to bring a large, liquid FRN issue at around Libor to take advantage of fund manager appetite for floating rate dollars. The lead manager said it had seen renewed demand for Canada's recent $2bn five-year FRN deal, which convinced it that a large deal for Abbey would work.

In pricing the Abbey deal, Goldman said it looked at recent FRN issues such as the $2bn issue from Province of Ontario which currently offers a yield of Libor plus 7 basis points. However, other syndicate managers remarked that the pricing on the Abbey deal was "very tight". The bonds will break syndicate today

The sterling sector saw plenty of excitement, reflecting the volatile conditions in the underlying UK government bond market. The quarter-point cut in the UK base rate first thing in the day sent gilt prices as much as a point higher in the morning and made the launch of certain sterling deals more difficult.

As a result of the base rate cut, Baring Brothers decided not to use the fixed price re-offer system for the £100m, five-year Eurobond deal which it brought for IKB Finance, the German bank which specialises in lending to medium-sized industries.

Also in the sterling sector, De Beers Centenary, the Lucerne-registered part of the De Beers group which holds all of the non-South African interests, launched its first bond issue.

The bond proceeds will be used partly to repay some of the company's short and medium-term borrowings, and partly to augment existing facilities.

The £150m 15-year deal has a coupon of 8.25 per cent and offers a yield of 165 basis points over the 9 per cent gilt due 2008. The issue, which was aimed predominantly at UK investors, had a launch price of 98.973 and traded up to 99.00-99.25 by late afternoon.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
Abbey Natl.Treasury Services‡	1bn	(a)	99.71R	Mar.1999	0.15R	-	Goldman Sachs Intl.
Grupo Mexicano de Desarrollo	250	8.25#	100.00R	Feb.2001	1.25R	+255(7¾%-01)	Bear Stearns Intl.
BHF Finance‡	200	(b)	99.325R	Mar.1999	0.20R	-	Merrill Lynch Intl.
Nippon Comsys Co.(c)Φ	100	1.125	100.00	Mar.1998	2.25	-	Nikko Europe
D-MARKS							
Banco Nacional	100	8.60	100.40	Mar.1997	1.80	-	Commerzbank
STERLING							
De Beers Centenary Finance(d)	150	8.25#	98.973R	Mar.2009	0.75R	+165(9%-08)	Hambros Bank
IKB Finance(e)	100	6.375	99.874	Dec.1998	0.30	+37 (8%-99)	Baring Brothers
Bayerische Hypobank(a,f)	50	6.00	99.25R	Oct.1999	0.30R	+23 (8%-99)	Hambros Bank
Anglo Finance No.2(g)‡	45	(h)	99.80R	Mar.2004	0.25R	-	Kleinwort Benson
FRENCH FRANCS							
Kingdom of Sweden‡	300	(i)	100.00	Mar.1999	undisd.	-	Banque Paribas
AUSTRALIAN DOLLARS							
National Australia Bank	250	6.25	100.35	Mar.1999	2.00	-	Hambros Bank
Australian Industry Dev.Corp.	150	6.60	99.60	Mar.2004	2.125	-	Barclays de Zoete Wedd
SWISS FRANCS							
INV(j)Φ	100	2.00	100.00	Mar.2000	-	-	Swiss Bank Corp.

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. ΦWith equity warrants. ‡Floating rate note. #Semi-annual coupon. R: fixed re-offer price; fees are shown at the re-offer level. a) 3-mth Libor -0.0625%. b) 3-mth Libor flat. c) Fixing: 15/2/94. d) Domestic bond. Long 1st coupon. e) Short 1st coupon. f) Issue launched 10/1/94 was increased to £150m. g) Secured by maintenance leases. Average life: 4.4 yrs. Callable on any coupon date from Mar.99. Simultaneous issue of class B notes. h) 3-mth Libor +0.55%. i) 6⅛% fxd for 1st yr and 31.70% - 5 x 5yr FFr swap rate (fixing once only, min zero) thereafter. j) Fixed today. Warrants are to ING Bank shares.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		9.500	08/04	120.3600	+0.110	6.36	6.18	6.39
Belgium		7.250	04/04	104.7500	+0.090	6.59	6.45	6.51
Canada *		7.500	12/03	106.2500	-	6.62	6.41	6.47
Denmark		7.000	12/04	106.3700	-0.130	6.17	6.03	5.99
France	BTAN	8.000	05/98	109.8000	-0.320	5.35	5.10	4.95
	OAT	5.500	04/04	96.8500	-0.100	5.92	5.72	5.66
Germany		6.000	09/03	101.1100	+0.160	5.84	5.69	5.59
Italy		8.500	01/04	100.5300	+0.250	8.42†	8.36	8.61
Japan	No 119	4.800	06/99	107.6210	-0.150	3.14	3.05	2.29
	No 157	4.600	06/03	106.9710	+0.150	3.51	3.53	2.98
Netherlands		5.750	01/04	99.6000	-0.080	5.80	5.65	5.60
Spain		10.500	10/03	117.0500	+0.400	7.91	7.78	8.16
UK Gilts		9.750	01/98	113-07	+7/32	5.90	5.67	5.75
		6.750	11/04	101-16	-11/32	6.53	6.22	6.23
		9.000	10/08	120-04	-13/32	6.81	6.48	6.56
US Treasury *		5.750	08/03	98-19	+1/32	5.95	5.71	5.63
		6.250	08/23	97-30	-2/32	6.41	6.29	6.25
ECU (French Govt)		6.000	04/04	98.9300	+0.460	6.14	5.96	5.87

London closing. *New York mid-day. Yields: Local market standard.
† Gross annual yield (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Lunchtime rates

Prime rate	6
Broker loan rate	5
Fed.funds	3¼
Fed.funds at intervention	-

Treasury Bills and Bond Yields

One month	3.14	Three year	4.73
Two month	3.41	Five year	5.37
Three month	3.31	10-year	5.96
Six month	3.52	30-year	6.41
One year	3.86		
Two year	4.42		

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	129.12	128.86	+0.12	129.32	128.76	348,488	149,654
Jun	128.72	128.46	+0.12	128.64	128.42	3,558	20,632
Sep	127.92	127.70	+0.16	127.92	127.70	146	3,594

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Mar	Calls Jun	Calls Sep	Puts Mar	Puts Jun	Puts Sep
129	0.46	0.99	-	0.58	1.50	-
130	0.14	0.62	-	1.28	2.09	-
131	0.04	0.36	-	-	-	-
132	0.02	0.21	-	-	-	-
133	-	0.11	-	-	-	-

Est. vol. total, Calls 41,456 Puts 30,415 . Previous day's open int., Calls 323,003 Puts 337,218.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	99.14	99.01	-0.03	99.37	98.80	201247	192106
Jun	99.04	98.91	-0.04	99.23	98.86	1707	6831

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Mar	Calls Jun	Puts Mar	Puts Jun
9900	0.38	0.89	0.37	0.98
9950	0.19	0.67	0.68	1.26
10000	0.08	0.49	1.07	1.58

Est. vol. total, Calls 13382 Puts 40393. Previous day's open int., Calls 264134 Puts 218583

■ NOTIONAL MEDIUM TERM GERMAN GOVT. BOND (BOBL)(LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	102.32	102.23	-0.03	102.39	102.15	794	9960

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	118.40	118.26	0.26	118.69	117.90	72949	81110
Jun	118.53	118.54	0.28	118.82	118.53	538	6857

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Mar	Calls Jun	Puts Mar	Puts Jun
11800	0.71	2.38	0.45	1.84
11850	0.47	2.12	0.71	2.08
11900	0.28	1.87	1.02	2.33

Est. vol. total. Calls 3130 Puts 1749. Previous day's open int., Calls 53126 Puts 81121

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	106.15	106.21	+0.34	106.41	106.05	55,975	102,362
Jun	106.40	106.22	+0.30	106.40	106.19	865	9,780

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	116-24	116-08	-0-08	117-23	115-16	202115	118791
Jun	116-16	115-20	-0-10	117-00	116-03	1176	2063

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Mar	Calls Jun	Puts Mar	Puts Jun
116	0-54	1-39	0-38	1-63
117	0-26	1-12	1-10	2-36
118	0-11	0-55	1-59	3-15

Est. vol total, Calls 16272 Puts 14387. Previous day's open int., Calls 106890 Puts 90219

Ecu

■ ECU BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	120.24	120.20	+0.34	120.56	120.00	7,691	12,658
Jun	-	95.30	+0.34	-	-	-	203

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Mar	114-22	114-16	-0-10	114-24	114-12	459,205	333,646
Jun	113-20	113-15	-0-09	113-21	113-11	13,571	25,291
Sep	112-22	112-20	-0-05	112-23	112-16	624	34,026

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Mar	114.32	-	-	114.49	114.20	3138	0
Jun	113.17	-	-	113.30	113.10	429	0

* LIFFE contracts traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Tue Feb 8	Day's change %	Mon Feb 7	Accrued interest	xd adj. ytd
1 Up to 5 years (26)	128.86	+0.34	128.52	1.84	1.23
2 5-15 years (21)	159.16	+0.26	158.75	1.94	1.97
3 Over 15 years (8)	184.17	+0.10	183.99	1.46	1.79
4 Irredeemables (6)	223.93	+1.78	220.02	2.80	0.00
5 All stocks (60)	154.46	+0.27	154.05	1.72	1.67
Index-linked					
6 Up to 5 years (2)	189.71	+0.35	189.05	0.37	1.41
7 Over 5 years (11)	189.61	-0.14	189.86	0.72	0.57
8 All stocks (13)	188.69	-0.09	188.85	0.68	0.86
Debentures and Loans					
9 Debs & Loans (68)	154.63	+0.31	154.16	3.00	0.56

	Low coupon yield Feb 8	Feb 7	Yr. ago	Medium coupon yield Feb 8	Feb 7	Yr. ago	High coupon yield Feb 8	Feb 7	Yr. ago
5 yrs	5.82	5.94	6.82	6.07	6.18	7.03	6.17	6.28	7.22
15 yrs	6.66	6.69	8.11	6.76	6.78	8.59	6.84	6.97	8.88
20 yrs	6.73	6.78	8.43	6.76	6.78	8.76	6.95	6.98	8.97
Irred.†	6.74	6.87	8.80						

	Inflation 5% Feb 8	Feb 7	Yr. ago	Inflation 10% Feb 8	Feb 7	Yr. ago
Up to 5 yrs	2.35	2.47	2.20	1.51	1.62	1.40
Over 5 yrs	3.04	3.03	3.66	2.87	2.86	3.48

	5 year yield Feb 8	Feb 7	Yr. ago	15 year yield Feb 8	Feb 7	Yr. ago	25 year yield Feb 8	Feb 7	Yr. ago
Debs & Loans	7.65	7.69	8.72	7.74	7.77	9.65	7.80	7.83	9.86

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Feb 8	Feb 7	Feb 4	Feb 3	Feb 2	Yr ago	High*	Low*
Govt. Secs. (UK)	105.05	104.38	105.03	105.56	106.06	95.03	107.60	93.28
Fixed Interest	129.73	129.66	131.47	131.80	132.33	110.63	133.87	108.67

* for 1993/94. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 133.87 (21/1/94) , low 50.53 (3/1/75) . Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974

GILT EDGED ACTIVITY INDICES

	Feb 7	Feb 4	Feb 3	Feb 2	Feb 1
Gilt Edged bargains	132.1	136.1	122.7	98.5	111.3
5-day average	119.7	112.9	114.9	117.5	131.3

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:05 pm on February 8

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
United Kingdom 7¼ 97	5500	105¼	105⅝	[illegible]	5.37
Alliance Leics 11⅞ 97 £	100	114⅞	115¼	[illegible]	6.16
[illegible]					

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

3i moves into fund management

By Richard Gourlay, Growing Business Correspondent

3i, the UK's largest investment capital company, has raised a Ecu300m (£236m) fund for investment in continental Europe in a move that takes it for the first time into the business of managing funds for other institutions.

The group will co-invest equity with the fund in unquoted investments mainly in France, Germany, Italy and Spain where it already has offices.

Mr Neil Cross, international director, said the UK would remain 3i's core market. But moving into fund management was an "important strategic venture" for 3i that would probably lead to other funds being raised and managed.

The fund will be one of the largest ever raised for equity investment in continental Europe where the venture capital market is growing more quickly than the more mature UK market.

3i already makes about 25 per cent of its equity investments in continental Europe. It has invested £250m in some 300 continental European companies and believes it is already the leading independent private equity investor in France and Germany.

Mr Cross said the group's capital base was not currently proving to be a constraint on that level of investment while the main European economies remained at the current levels, but by raising the fund the group had increased its flexibility.

The fund will allow 3i more scope to syndicate deals and to structure more of the equity investments required in the growing European private equity market.

3i, which is owned by the UK clearing banks and the Bank of England, was due to float last year, but the issue was pulled after a number of the shareholders changed their minds.

Yesterday's launch of 3i as a fund manager – a move which will boost the revenue stream in its profit and loss account – has sparked speculation that flotation might again be moving off the back burner. 3i's shareholders will have noticed that venture capital investment trusts are trading at discounts to asset value which are historically very small.

Mr Cross denied the launch of the new European fund had anything to do with plans for a flotation which remained no more than a long-term objective.

3i, which is itself contributing Ecu100m to the fund, will have raised the Ecu300m from about nine institutions in Europe, east Asia and the US, a comparatively small number for the size of fund.

MBO planned at Ferranti plant

By Paul Taylor

Managers from Ferranti International's Cairo Mill component manufacturing business are planning a buy-out of the Oldham-based plant which employs 490 staff and had turnover of £30m last year.

Ferranti Components, which designs and manufactures specialist micro-electronic components for use in defence and civil applications, was specifically not included in the MBO plans covering the bulk of Ferranti's operations unveiled by another team of managers in December.

The four-man Cairo Mill buy-out team, led by Mr Angus Mincher, general manager, and advised by Ernst & Young, plans to present a bid to Ferranti's administrative receivers, Mr Murdoch McKillop and Mr John Talbot from Arthur Andersen, early next month. Potential financial backers for the bid have been approached.

The receivers, who welcomed the latest buy-out proposal yesterday, were appointed in early December after GEC withdrew a 1p a share rescue bid for the ailing defence electronics group.

Explaining the MBO proposal, Mr Mincher said: "We have now formulated a strategy to develop the business from its existing base. Our order book represents more than a year's work. This gives us time to win back customer confidence which has inevitably been strained over the recent difficult weeks.

"We will be looking to develop our business both in existing core areas and by diversification in the medium term. We have a strong skills base in the Oldham plant which we will develop further."

Mr Mike Davis of Ernst & Young, added: "The components business has the necessary ingredients for a successful buy-out, a sound product base, blue chip customers and a strong management team."

Separately, it emerged yesterday that the administrative receivers have taken the highly unusual step of writing to the Cairo Mill employees advising them that they do not anticipate any further redundancies, and promising that if there are more redundancies employees will be given at least one month's notice.

In the letter Mr James Gleave, the Manchester-based Arthur Andersen partner responsible for the plant, says: "I hope [this step] gives you extra confidence both in the future of Cairo Mill and our ability to sell the business without any need for further job losses."

P&O to spend $680m on new liners

By Gerard Baker

Peninsular and Oriental Steam Navigation, the shipping, transport and property group, announced that Princess Cruises, its US-based subsidiary, had placed orders for two new superliners from Italy's Fincantieri shipbuilding yard.

The ships, with passenger capacities of 1,950 and 2,500 will cost $295m (£197m) and $385m respectively, and will be delivered in 1997.

The first is a sister ship to the company's 77,000-ton Sun Princess, due to be delivered by Fincantieri in January 1996. The other is dedicated to the Caribbean market.

The two ships are being financed with loans at 8 per cent over 8½ years.

P&O, through Princess Cruises, is one of the three leading companies in the world cruise market.

At present it operates nine ships in North America, the largest market, carrying 430,000 passengers annually. It commands a 40 per cent share of the Alaskan cruise business but lies behind its two rivals, Carnival and RCCL in the Caribbean.

Lord Sterling, P&O executive chairman, said the North American market had grown by about 10 per cent a year for the past 10 years.

Recent research, however, suggested that only 5 per cent of the total available cruise customers took cruises.

The strengthening economic recovery in the US was expected to increase demand for both Caribbean and Alaskan cruises.

Bookings since the start of the year had risen and passenger yields had improved.

In addition to the US market, P&O operates two general cruise ships in Europe and one in Australia. Next year, a third ship will begin service in Europe.

Lord Sterling said that the P&O cruise division was "one of the fastest growing and most consistent profit earners and cash generators in the P&O group".

It does not publish separate figures for the cruise division, but according to Mr Richard Sanderson, of brokers Panmure Gordon, the passenger shipping division is likely to see pre-tax profits rise to about £150m for the year to December 31, of which half will derive from passenger cruises.

Trevor Humphries

Peter Job: US now outweighed City of London as Reuters' biggest single market

Reuters to build US presence on back of Quotron purchase

By Andrew Bolger

Reuters Holdings said its recent decision to purchase Quotron, the US data services business, was a crucial step in building the UK group's presence in North American equity markets.

Mr Peter Job, Reuters chief executive, acknowledged that the business was "not in a happy state" and said cancellations already in the pipeline would reduce its customer base from 40,000 terminals to the mid-30,000s – about 20 per cent of the market.

However, Mr Job was confident that Quotron could be improved by injecting Reuters services and infrastructure into the network, and that an increasing number of US users would also be interested in the European share information.

Including revenue from Instinet, Mr Job said the US now outweighed the City of London as Reuters' biggest single market. Excluding Instinet, the group said the revenue and profit contribution by the Americas grew rapidly in 1993. Profits trebled from £12m to £37m. Revenue grew by 32 per cent to £285m and by 12 per cent at comparable rates.

The profits contribution from Europe, Middle East and Africa grew by 6 per cent to £353m and revenue by 10 per cent to £1.08bn, which was 5 per cent at comparable rates.

The Asia/Pacific contribution rose by 27 per cent to £175m with revenue ahead 26 per cent to £385m, a 3 per cent increase at comparable rates.

Net cash of £450m was down from £710m, reflecting last year's £350m share repurchase, accelerated capital spending and increased spending on acquisitions.

Operating profit before interest grew by 20 per cent to £380m. Interest income declined by 9 per cent to £60m following the share repurchase, and would decline further next year.

Capital expenditure increased by 35 per cent to £268m, influenced by a stronger dollar while expenditure on subscriber equipment rose 40 per cent to £143m.

F&C looks to UK for first time

By Bethan Hutton

Foreign & Colonial is launching its first purely UK-based investment trust in its 125 year history. The Income Growth Investment Trust aims to achieve long-term income growth above the rate of inflation, and capital growth greater than the FT-SE A 350 index.

"Many British companies have now strengthened their financial position and improved their ability to pay higher dividends over the longer term," said Mr Jeremy Tigue, director of Foreign & Colonial Management. Companies included in the FT-SE A 350 index were best placed to benefit from an upturn in the UK and its trading partners.

The fund is targeted at private investors wanting to hold shares in a personal equity plan. Dividends will be paid quarterly, and the warrants, issued on a 1-for-5 basis, will be traded as a unit with the shares for the first 43 days.

The public offer period is from March 1 to 22, and dealings in the units start on March 29. The fund will have an initial life of 10 years.

Amersham invests £3m in Scitech of Singapore

By Daniel Green

Amersham International is to invest £3m in Scitech Genetics of Singapore in an effort to develop a kit that will speed up the diagnosis of viral infections such as hepatitis. This is the company's first deal in south-east Asia.

Scitech said yesterday that it expected the kit would be available in about 18 months.

Amersham insisted the deal did not mark its return to the business of medical diagnostics – it sold its diagnostics activities to Kodak in 1990 for £84m.

Amersham will instead use the expertise developed in Singapore to manufacture a kit for sale to research laboratories for the measurement of DNA in cells.

Scitech will be able offer a diagnostics service to hospitals, but is prevented under the agreement with Amersham from selling the kit, said Mr Trevor Nicholls, Amersham's head of life sciences marketing.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Flem Claverhouse	fin	1.75†	Mar 1	1.6*	5.5	5.35*
Heiton	int	0.65‡	Apr 6	0.65	-	2
Hotspur Invs	fin	7.5	Mar 18	6.6	7.5	6.6
Kleinwort O'seas	fin	1.9	Apr 29	1.8	3.4	3.3
Reuters	fin	19.8	May 3	15.9	26	21.2

Dividends shown pence per share net except where otherwise stated. †On increased capital. *Adjusted for scrip issue. ‡Irish pence.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends.

Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetables.

TODAY

Interims- Elbef, Grosvenor Ints.

Finals- Graham Fintoul Investment Trust, Owners Abroad, Scottish American Investment Trust, Updown Investment.

FUTURE DATES

Interims-	
Benson Group	Feb. 16
FII	Feb. 21
Intl Comm & Data	Feb. 17
Westminster Health Care	Feb. 14
Finals-	
County Smaller Co's Inv	Feb. 15
Inveresk	Mar. 1
Northumbrian Water	Jan. 9
Scotia	Mar. 14
USDC Inv Tst	Mar. 7
Vektra	Feb. 17
Woodchester Invs	Feb. 28

Abtrust to raise size of trust

By Bethan Hutton

Abtrust is seeking to increase the size of its New Dawn investment trust by more than 50 per cent with a conversion share issue. The trust, which invests in the Far East excluding Japan, currently has assets of about £80m.

A placing of the C shares has already raised £29m, net of expenses, and the public offer, which opens today, could raise up to £15m more. Shares in the trust have been trading at a slight premium to net asset value in the last few months.

C shares will be issued at 250p, with one warrant attached to every five shares, exercisable at 270p between 1997 and 2000. The C shares will be converted to ordinary shares when 90 per cent of the new money has been invested.

Castle Cairn plans policy change

Castle Cairn Investment Trust said it was proposing to change its investment policy to one of direct investment internationally in companies rather than through investment trusts.

Direct investment would enable the investment manager to select investments on a more focused basis, it said.

The change should result in the company being reclassified as an international capital growth trust.

NEWS DIGEST

Betacom falls to £103,000

Betacom, the telephone equipment supplier 66 per cent owned by Amstrad, reported higher interim operating profits, although the rise was constrained by supply difficulties with its new product range.

The group reported operating profits of £43,000 in the six months to December 31 compared with an £8,000 loss on turnover from continuing operations which expanded to £6.91m (£6.67m).

However, interim pre-tax profits fell to £103,000, against £350,000 a year ago when the outcome was boosted by a £213,000 profit on the sale of fixed investments.

Earnings per share fell to 0.15p (0.46p).

Apollo Metals faces 'short-term pain'

Mr Albert Hargreaves, chairman of Apollo Metals, told the annual meeting that the balance sheet remained strong, stocks and debtors were under control, and gearing was relatively low.

However, he saw no reason to change the view he expressed in his annual statement that the company may have to experience further short-term pain in order to achieve its longer-term strategic goals.

Utility Cable starts trading

The £8.75m cash and paper reverse takeover of the JP Fitzpatrick companies by Baillie Gifford Technology, the shell investment trust, was approved yesterday at an egm. A change of name, to Utility Cable, became effective on Monday.

The meeting also agreed the placing, rights issue, subscription agreement and issue of management warrants announced on January 14.

The admission of the 1p ordinary shares and warrants to the Official List has become effective and dealings began yesterday.

Palmerston reveals funds shortfall

Palmerston Holdings, the loss-making property group whose shares have been suspended at 10p since the beginning of October, yesterday announced that there was a deficiency in its shareholders' funds of about £39.2m.

The shortfall derived mostly from guarantees given in favour of its subsidiary and associated companies, the directors said. In the accounts for the year to March 31 1992, shareholders' funds showed a surplus of £1.78m.

Having failed to reconstruct its finances in other ways, Palmerston is continuing with its plan to enter a company voluntary arrangement with its creditors under which they would refrain from exercising any of their rights for six months.

During the six months, the group would seek an investor to inject new capital or pay the creditors. Palmerston feels this would produce a more satisfactory outcome for creditors and shareholders than the alternatives of receivership or liquidation.

SCHRODER INTERNATIONAL SELECTION FUND
Société d'Investissement à capital variable
Registered Office: 23 rue Goethe, L-1637 Luxembourg
R.C. Luxembourg B 82.02

The

EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS

of Schroder International Selection Fund will be held at its registered office at 13, rue Goethe, Luxembourg at 11.00 am on Friday 18 February 1994 for the purpose of considering and voting upon the following matters:

Agenda:

1. Amendment of article 10 of the Articles of Incorporation of the Company, replacing in the first sentence the term "January" by the term "May", and by adding at the end of this sentence the term: "from 1995 on".
2. Amendment of article 26 of the Articles of Incorporation of the Company, replacing the first sentence of this article by the following sentence:
   "The accounting year of the Company shall begin on the first day of January of each year and shall terminate on the last day of December of that year."
3. Amendment of article 28 of the Articles of Incorporation of the Company, replacing the text of this article by the following paragraph:
   "The Company shall enter into a discretionary Management Agreement with Schroder Investment Management Limited, whereunder such company will provide discretionary fund management services in respect of the Company and abide by and be subject to the overall supervision, direction and control of the Directors."

Voting:

Resolutions on items 1 and 2 and 3 of the agenda of the extraordinary general meeting will require a quorum of 50% and a majority of two thirds of shareholders present or represented at the meeting voting in favour.

The

ANNUAL GENERAL MEETING OF SHAREHOLDERS

Agenda:

of Schroder International Selection Fund will be held at its registered office at 13, rue Goethe, Luxembourg at 11.15 am on Friday 18 February 1994 for the purpose of considering and voting upon the following matters:

1. Acceptance of the Directors' and Auditor's reports and approval of the financial statements for the year ended 31 August 1993.
2. Distribution of final dividend.
3. Discharge of the Board of Directors and Auditor.
4. Election and re-election of Directors.
5. Re-election of Auditor.
6. Miscellaneous.

Voting:

Resolutions on items 1-6 of the agenda of the annual general meeting will require no quorum and will be taken at the majority of the votes expressed by the shareholders present or represented at the meeting.

Registered Shareholders:

Registered shareholders who cannot attend the meeting in person are invited to send a duly completed and signed proxy form to the registered office of the Company to arrive not later than 15 February 1994.

Bearer Shareholders:

In order to take part in the Meeting of 18 February 1994, the owners of bearer shares must deposit their shares five business days before the meeting at the registered office of the Company as set out above, or with one of the following:

Bank of Bermuda (Luxembourg) S.A.
13 rue Goethe
L-1637 Luxembourg

Securities Department
Schroder Investment Management Ltd
33 Gutter Lane, London EC2V 8AS

Proxy forms will be sent to registered shareholders with a copy of this Notice and can be obtained by bearer shareholders from the registered office.

The Board of Directors

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Vodafone acquires GMC stake

By Andrew Adonis

Vodafone, the largest cellular phone operator in the UK, has paid £29.2m for a one third stake in General Mobile Communications, the UK's leading independent mobile telephone service provider, from Compagnie Générale des Eaux, the French diversified services group.

GMC's main operation is Talkland, which controls about 50 branded retail outlets in the UK for mobile telephones.

The Talkland stake will give Vodafone direct or indirect access to nearly half of its 1m customers.

Talkland has about 210,000 subscribers, with more than half connected to Vodafone's network. Vodac and VHL, Vodafone's wholly owned service-providing subsidiaries, together have more than 330,000 Vodafone subscribers.

Gerry Whent: Talkland is a key player in service provision

In addition to the sale price, Vodafone has agreed to lend GMC £29m for investment in Talkland.

Talkland will continue to operate separately, and Vodafone said it had no plans to acquire a further stake in GMC. Mr Terry Barwick, Vodafone's director of corporate affairs, said: "This is not a move to take over aggressively the independent service providers: it was a good opportunity in its own right."

However, the acquisition marks a further contraction of independent service providers, a key feature in the cellular mobile industry as regulated in the 1980s. Mercury One-2-One, the third cellular network operator which launched last year, sought from the outset to minimise the role of independent service providers.

The acquisition leaves about 10 large service providers without direct links with either Vodafone or Cellnet, the second largest network operator owned by BT and Securicor.

In 1992 CGE incurred pre-tax losses of £2.6m. It expects a profit for 1993, before exceptional items.

According to Mr Gerry Whent, Vodafone chief executive, "service provision is one of the cornerstones of the UK mobile industry, and Talkland is one of the key players."

Graham issues pathfinder and shows 25% rise

By Peggy Hollinger

Graham Group, the builders' merchant about to be demerged by BTR, the industrial conglomerate, returned pre-tax profits ahead 25 per cent to £13.5m last year, on sales just 8 per cent higher at £374m.

Graham, one of the first companies in the building materials sector to come to the market for some years, published its pathfinder prospectus yesterday. It is seeking a listing through the placing and public offer of 114.6m shares and is expected to have a market value of between £200m and £250m.

The Luton-based company has had a difficult time in recent years, falling from the leading position in the builders' merchant league to fourth place with a UK market share of 5 per cent.

Profits have fallen by 60 per cent since the peak in 1989. Mr Ian Mills, managing director, said this had been due both to recession and the pursuit of volume at the expense of margin.

Mr Mills stressed that the group had substantial opportunities following the appointment of new management and a strategic review last year. "We will increase the gross margin by adding value," he said. Last year, Graham's gross margin declined by 0.5 per cent to 21.8 per cent.

Debt is expected to be £19.6m after the demerger, representing 22 per cent of shareholders' funds. Mr Mills said this was expected to come down in future, in spite of a £36m, three-year capital expenditure programme.

Capital expenditure has been significantly increased in the past year as Graham began to refurbish its 148 branches and rebrand the group.

Dividend payments this year are expected to equal approximately half of Graham's after-tax profits, which were £12m in 1993 giving earnings of 10.5p (8.1p) per share. Graham intends to pay one third of the dividend at the interim stage.

BTR is selling Graham and other distribution businesses to focus on manufacturing and reduce its onerous debt. Earlier this year it completed the £120m disposal of Summers Group, the US electrical wholesaler.

Anglia Secure to focus on nursing home activities

By Nigel Clark

Anglia Secure Homes is proposing a series of changes which will result in its withdrawing from sheltered housing and concentrating on its nursing homes activities.

The company also announced reduced pre-tax losses of £7.11m for the year to September 30, against £15.5m. The improvement was achieved on turnover of £14.1m (£17.5m). Losses per share came out at 22.2p (46.9p).

The moves include the disposal of the sheltered housing business and its associated debt, the acquisition of two companies in the contracted nursing home sector, and the raising of £3.4m net through a subscription and rights issue.

The shares were suspended at 12p yesterday while the changes take place.

The new company will be known as Care UK and be 60 per cent owned by Nash, Sells & Partners, a venture capital company.

Anglia is acquiring the outstanding 72.1 per cent holding in Haven Healthcare from Nash for 172m shares and Community Health Services from Nash and National Home Loans for 100m shares.

The new shares will trade on the USM. The existing 10p shares are being split into 1p ordinaries and 9p deferred. The company also intends to reduce the share capital and share premium accounts.

Anglia is also retaining its 50.1 per cent interest in Haven Services, its joint venture with Commercial Union.

The sheltered housing activity was financed mainly by bank loans, which amounted to £22.1m at September 30. The recession, high interest rates, and provisions against the fall in property values have left the group with a deficit on capital and reserves of £6.52m. The banks have conditionally agreed to relieve the new company of the debts associated with the housing business.

The company is offering 49.6m shares in a 3-for-2 rights issue at 4¼p a share. A further 47m shares are being offered for subscription at the same price. The proceeds will fund a payment of £3.3m to the banks.

As shareholders are not able to take part in the subscription they are being offered warrants on a 2-for-3 basis, with each warrant entitling holders to buy a share at 4½p in the future. Nash is offering to buy the warrants at 0.88p.

Simon sells Unichem Intl in drive to reduce debt

By David Blackwell

Simon Engineering, the maker of access equipment including fire rescue gear, yesterday agreed to sell Unichem International to the Western Company of North America for \$19.8m (£13.2m) cash.

The sale is part of the group's plan to raise £40m through disposals as part of a drive to cut debt.

Since Mr Maurice Dixson became chief executive in a boardroom shake-out last September group debt has been cut from £148m to below £120m.

In December, Simon sold its 50 per cent share in TR Oil Services for £6.2m. This disposal, coupled with the sale of Unichem International, substantially ends Simon's involvement in chemical services.

Unichem International, based in Houston, had sales of £20.4m and trading profits of £1.3m in 1992, the latest year for which audited accounts are available. Net assets were £1.6m.

NEWS IN BRIEF

SELECT INDUSTRIES: Call of 2¼p per partly paid 7½p share due by January 31 1994 in respect of 142.94m partly paid shares in issue has resulted in Select receiving a total amount of £3.53m. The call will raise £3.57m and thus some 98.8 per cent of total due has been received to date.

TAIWAN INVESTMENT Trust: Directors stated that in the recent placing and intermediaries offer a total of 33.75m ordinary shares have been placed firm with institutional and other investors and 11.25m were placed subject to recall to meet valid applications under the intermediaries offer. Valid applications were received in respect of 11.57m ordinary shares from a total of 46 intermediaries.

COMPANY NEWS: UK AND IRELAND

Freeman accepts £19m Sheffield Insulations bid

By David Blackwell

Sheffield Insulations, the distributor of thermal insulation and related products, yesterday made an agreed bid for Freeman Group, valuing the insulation, distribution and fabrication specialist at £18.6m.

Mr Bill Forrester, Sheffield chief executive, said the acquisition would strengthen the company's UK insulation distribution activities, and would provide "an important new base in continental Europe."

Sheffield is offering eight of its ordinary shares for every nine Freeman.

At yesterday's closing price of 288p, up 18p, the offer was worth 256p per Freeman share.

Freeman shares, up 22p to 242p yesterday, were standing at 204p on January 17, the last dealing day before the announcement of a possible offer.

A mix and match offer gives Freeman shareholders the chance to accept instead cash and loan notes to the value of 225p a share.

This would be funded by placing 3.28m new ordinary shares at 256p to raise about £8.3m net of expenses.

The placing, which represents about 5 per cent of Sheffield's existing share capital, is underwritten by Samuel Montagu.

Sheffield said it had already received irrevocable acceptances from Freeman's directors and other shareholders in respect of 4.15m shares, or about 57 per cent of the company.

Holders of the new ordinary Sheffield shares will not receive the final dividend, estimated at 3.6p for the year ended December.

Sheffield, which last year acquired WMS Group for £52.9m, estimates its pre-tax profits for the year at not less than £9.75m.

Freeman shareholders will receive a second interim dividend of 4p once the offer becomes unconditional. Freeman estimates its pre-tax profits for the year to end-December at not less than £950,000.

Exceptionals put Elan I£61m in red

By Tim Coone in Dublin

Elan, the Irish drug delivery company, reported a pre-tax loss of I£60.7m (£58.2m) for the nine months to December 31 after exceptional charges of I£85.1m. There were profits of I£13.2m last time.

The result was achieved on turnover 18 per cent higher at I£76.9m (I£65m). Operating profits rose by 43 per cent to I£17.9m.

The exceptional charges included a I£59.3m write-off of research and development costs on the acquisition of Drug Research Corporation in July last year.

A further I£25.8m related to the flotation of Advanced Therapeutic Systems in a rights offering to shareholders last August, equivalent to a one-off dividend payment. Under US rules Elan is classified as a growth stock and not permitted to pay dividends.

Elan's main listing is in New York, although its headquarters and main manufacturing base are in Ireland. It is also listed in London and Dublin.

Losses per share came out at 175p, against earnings of 41p. Excluding the exceptional costs earnings were 71p.

Parkside to join market with £32.8m price tag

By David Blackwell

Parkside International, the packaging group that underwent a £3.2m management buy-out five years ago, yesterday finalised its flotation, pricing the shares at 110p to give a market capitalisation of £32.8m.

The company is raising a total of £12m through the sale of 11.04m shares. Of this, £7m of new money is being raised before expenses from the sale of 6.36m shares. The remaining shares are being sold by directors and senior management for £3m, and by investment institutions for £2m.

Mr Geoffrey Stewart, the chief executive who led the MBO from Jarvis Porter, said the new money would be used to continue expansion.

The management would retain 40 per cent of the company and had agreed to sell no shares for two years, he said. The institutions had agreed not to sell any shares for one year, and were retaining 22 per cent.

Parkside specialises in flexible packaging, which uses reels of plastic or paper sheeting, and plastic labels. Among its leading customers are Tate & Lyle, Walkers crisps, Coca Cola and Andrex. It has two factories in Leeds and another, opened in 1992, near Wakefield.

Mr Stewart said the company had spent £6m in upgrading its technology since the MBO and was planning to spend £3.25m on capital investment to end-February 1995, with a further £4m the following year.

In the year to February 28 1993, pre-tax profits were £1.86m on turnover of £21.9m. The company, which employs 236 people, is forecasting pre-tax profits in the current year of £2.2m. Earnings per share are estimated at 6.5p, which gives a prospective p/e of 16.9.

The notional dividend of 3p would give a gross yield of 3.4 per cent.

Brokers to the issue are Panmure Gordon.

Heiton declines to I£750,000

Depressed consumer spending and increased competition cut pre-tax profits at Heiton Holdings, the Dublin-based steel stockholder, builders' merchant and DIY retailer, in the six months to October 31, writes Gerard Baker.

Despite a rise in turnover from I£30.1m to I£31.6m, pre-tax profits dropped 20 per cent from I£945,000 to I£753,000 (£722,000).

Mr Diarmuid Quirke, chief executive, said that while the steel stockholding and builders' merchant division, which accounts for the bulk of the group's business, saw profits rise, the DIY side had had a more difficult six months.

Weak consumer demand, the growth of capacity in the market and start-up costs associated with the Galway branch of Atlantic Homecare, the main DIY subsidiary, had reduced profits.

Earnings per share were 1.74p (1.9p). The interim dividend is held at 0.65p.

Mr Quirke said that growing consumer confidence, lower interest rates and new public building projects gave good grounds for optimism.

NEWS DIGEST

Powerscreen makes US acquisitions

Powerscreen International, the Northern Ireland-based maker of screening and stone crushing equipment, is to buy two US businesses, Simplicity Engineering and Ludlow-Saylor, from Lukens, a Pennsylvania-based concern.

The price is $13.5m (£9m) based on net assets acquired of $15m, but will be reduced or increased dollar for dollar dependent on net assets as set out in the completion balance sheet.

Simplicity, based near Lansing, Michigan, makes heavy-duty material processing systems, while Ludlow-Saylor, based near St Louis, Missouri, produces woven-wire cloth and cast polyurethane screens.

The two companies had combined turnover of $25.2m and net profits of $1.7m in 1993.

Hotspur Invs lifts net asset value 30%

Hotspur Investments, the Cazenove-managed trust which seeks long-term capital growth via an international portfolio, saw its net asset value advance by 30 per cent, from 354.7p to 462.5p, over the 1993 year.

Attributable revenue improved to £63,585 (£54,366) equivalent to earnings of 10.29p (8.8p) per share. The single distribution for the year goes up to 7.5p (6.6p).

Fleming Claverhouse net assets advance

Net assets per share at Fleming Claverhouse Investment Trust advanced from 189p to 238.3p over the 1993 year.

Net revenue came to £3.21m (£2.23m) resulting in earnings per share of 6.53p (5.54p). A proposed final dividend of 1.75p makes a total of 5.5p, against an adjusted 5.35p.

Westminster Scaffolding

Westminster Scaffolding Group's financing proposals were approved at an extraordinary meeting held on Monday.

As a result of the restructuring, the USM-quoted company's equity comprises 448.28m ordinary 1p shares, of which 203.98m were issued to capitalise all outstanding loan stocks totalling £3.52m.

In addition, 188.8m new ordinary shares were issued at 1½p per share pursuant to the placing and offer. The offer was over-subscribed 1.74 times and excess applications have been scaled down.

At the EGM, Mr Michael Pelham, chairman, said completion of the fund raising and restructuring had removed the constraints of the company's loan stocks and had given it the resources to move forward in improving market conditions provided by the gradual recovery of the UK construction industry.

Fleming Income & Capital Trust

Fleming Income & Capital Investment Trust is considering an offer of conversion shares to increase its size.

The directors said that any such offer would be structured in such a way that there would be no dilution of the net asset value of the existing shares and units and no reduction in the asset cover of the existing zero dividend preference shares.

Suter lifts J Wilkes stake to 29.53%

Suter, the industrial conglomerate, has bought a further 1.53m shares (8.7 per cent) in James Wilkes, the specialist engineer, bringing its holding to 5.21m shares (29.53 per cent).

Suter said the shares were for investment purposes and it had made no decision about its next course of action.

US Smaller Cos beats benchmarks

US Smaller Companies Investment Trust reported net asset value of 158.6p per share basic and 148.8p per share fully diluted as at December 31.

The figures compared with respective values of 137.8p and 131.5p a year earlier.

The trust, which seeks long-term capital growth, said its sterling-based return had risen 12.4 per cent over the six month period. This translated into an 11.3 per cent advance in dollar terms, comfortably beating its benchmarks.

The net surplus of £197,000 (£19,000) was transferred to the revenue reserve. Earnings per share were 0.4p (0.09p) on increased capital.

BTR confirms Canadian sale

Directors of BTR yesterday confirmed the sale of the company's 59 per cent holding in Hawker Siddeley Canada.

The divestment, by way of a public offering, was announced in January and the sale proceeds will amount to C$121.6m (£62m).

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 09.02.94: Pool purchase price £/MWh	Final Prices for Trading on 12.01.94: Pool purchase price £/MWh	Pool selling price £/MWh
0030	17.29	18.11	18.11
0100	19.31	23.22	24.44
0130	19.80	23.57	24.79
0200	19.41	23.57	24.79
0230	18.80	23.57	24.79
0300	19.31	23.57	24.79
0330	19.31	23.57	24.79
0400	17.34	23.57	24.79
0430	17.19	23.57	24.79
0500	17.17	22.84	24.06
0530	17.19	22.53	23.75
0600	17.20	22.53	23.75
0630	17.18	22.53	23.75
0700	19.51	22.94	24.16
0730	20.09	22.97	24.19
0800	20.10	23.10	24.32
0830	20.11	23.44	24.65
0900	21.09	23.61	24.83
0930	21.05	23.91	25.13
1000	21.06	23.91	25.13
1030	21.06	23.91	25.13
1100	21.04	27.86	29.09
1130	21.04	27.88	29.10
1200	21.04	38.31	39.55
1230	21.03	38.32	39.55
1300	21.01	38.31	39.54
1330	20.10	38.28	39.51
1400	20.01	27.86	29.08
1430	17.43	23.91	25.13
1500	17.42	23.61	24.83
1530	17.42	23.47	24.69
1600	17.49	23.97	25.20
1630	23.58	36.49	38.06
1700	25.81	39.39	41.40
1730	44.70	39.58	41.57
1800	44.93	38.33	40.11
1830	40.96	28.92	30.22
1900	23.96	28.67	29.90
1930	21.24	23.62	24.84
2000	21.05	23.26	24.45
2030	20.70	23.20	24.41
2100	20.37	23.20	24.41
2130	19.62	23.17	24.39
2200	19.62	23.17	24.39
2230	17.37	23.17	24.39
2300	17.20	23.17	24.39
2330	17.16	22.73	23.95
2400	17.15	18.09	18.09

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.06/MWh becomes 1.606p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0602-459780 between 8:30am and 5:15pm Monday to Friday.

LEGAL NOTICES

Notice of application for variation of appointment of

ESSEX WATER PLC

Pursuant to Section 8(2) of the Water Industry Act 1991. Essex Water Plc registered in England with Registered Number: 2635436

This Notice is issued in accordance with Section 8(2) of the Water Industry Act 1991. Application has been made to the Director General of Water Services for the variation of appointment of Essex Water plc ("Essex") to extend the areas to which that appointment relates to cover the areas presently served by Suffolk Water plc ("Suffolk"). If the variation applied for is granted Essex will, upon the variation coming into force, become the water undertaker for the areas presently served by Essex and Suffolk and Suffolk's appointment as a water undertaker shall cease. The application for the variation of Essex's appointment is part of a number of proposals agreed by the Board of Essex and the Board of Suffolk and announced on 8 February 1994, as a further step in the integration of the two companies which commenced in August, 1991, when they decided to integrate the management and day to day operations of Suffolk with that of Essex. The decision to integrate these operations was made in order to improve the existing standard of service to customers and for greater efficiency and to that end the management teams have since been integrated. The merger of Essex and Suffolk is to be carried out in two stages. Firstly, Essex will acquire the issued ordinary share capital of Suffolk with Suffolk ordinary shareholders receiving Essex ordinary shares in exchange and/or a cash alternative and the holders of existing debenture stocks of Suffolk receiving, in the case of its holders of redeemable debenture stock, new substitute Essex debenture stocks and, in the case of its holders of perpetual debenture stocks, cash. This reorganisation will be carried out by means of a Scheme of Arrangement under section 425 of the Companies Act 1985 proposed by Suffolk. The Scheme requires the approval of each class of Suffolk ordinary shareholders and debenture stockholders and (as a requirement under the listing rules) shareholder approval of the Scheme is also being sought at meetings of both Suffolk and Essex convened for that purpose. The Scheme also requires the sanction of the Court. If the proposed Scheme becomes effective then, subject to the variation of appointment becoming effective, all of the trade, assets, rights and liabilities of Suffolk will be transferred to Essex by way of a transfer scheme in accordance with Schedule 2 of the Water Industry Act 1991. The transfer scheme (which is subject to the approval of the Director General of Water Services) will take effect on the same day that the variation of appointment comes into force. Essex is also seeking shareholder approval for a change of name to Essex and Suffolk Water plc, conditional upon the Court sanctioning the Scheme and the variation being granted. If these conditions are satisfied the water company supplying the areas currently supplied by Essex and Suffolk will be known as Essex and Suffolk Water plc. Any enquiries relating to the above application may be made, during normal working hours, to: Johnathan Lowe, Essex Water plc, Hall Street, Chelmsford, Essex CM2 0HH

Tel: 0245 491234

PERSONAL

COMPANY NEWS: UK

UES – cut, rolled but far from finished

State subsidies are still a threat to private steel companies, reports Andrew Baxter

	External sales (£m)	Pre-tax profits (loss) (£m)	Steel deliveries (000 tonnes)	Employees (year-end)
FIVE-YEAR RECORD AT UES				
1988	686	52.7	1,818	11,123
1989	814	67.3	1,957	10,708
1990	734	52.5	1,666	9,446
1991	551	1.9	1,213	8,334
1992	565	(8.3)	1,317	8,108

David Stone: hopes that weaker players will fall by the wayside

Red hot and still molten inside, two continuous "blooms" of newly-made steel snake their way out of a £75m casting complex at UES Steels' Aldwarke works in Rotherham on their way to be cut, rolled and finished.

The continuous caster and related plant, commissioned in 1989, is the most visible sign of some £250m of capital spending made by UES since it was formed in 1986 from the merger of the engineering steel interests of GKN and the former British Steel Corporation.

The boost to productivity it provides is one reason why Mr David Stone, managing director of UES Steels, says the company is "probably the largest but definitely the leading" European producer of engineering steels – specialist steels used in forged automotive parts such as crankshafts and axle beams and in everything from downhole boring to general machining.

Mr Stone is less happy, however, about some of the external factors affecting the company. "State subsidies are keeping companies going which should shut," he says. "They are threatening the viability of private companies which are more efficient."

In spite of December's Brussels agreement on state subsidies in Europe's steel industry – which involved Sidenor of Spain, one of UES's competitors – Mr Stone is not confident that the issue has been resolved. Like many in British industry he wants the European Commission to show more teeth in applying the rules banning subsidies, and in particular to prevent further subsidies being allowed rather than reacting after the event.

For a company such as UES these are not just political debating points: the subsidies issue is directly relevant to the performance of the company and the prospects of its employees.

The continued existence of subsidised producers is one reason why prices for steel scrap – the main raw material for companies such as UES – have risen, says Mr Stone. "They can pay more than they need for scrap".

When UES was forced to cut jobs last year, it blamed unfair competition caused by subsidies to some of its competitors, along with scrap prices – up from about £50 a tonne to £90 a tonne in the past 12 months – and the high cost of electricity in the UK. UES makes its steel by putting scrap into electric arc furnaces. "Subsidies, scrap and electricity prices are absolutely fundamental," says Mr Stone. The company's Templeborough steelworks in Rotherham, which closed in November with the loss of 250 jobs, could be seen as a casualty of the European steel scene, he claims.

As if that was not enough, UES is also embroiled in a trade dispute involving its exports to the US of leaded bar – steel to which lead is added to make it more easily machined. This business is normally worth some £30m a year. It is appealing against anti-dumping and countervailing duties, which have reduced its US exports of the product by one third.

Then there is the recession in the UK and continental Europe which, along with overcapacity in the engineering steels sector, has depressed selling prices. With about 60 per cent of group sales going to the automotive industry, UES has to deal with powerful customers in a buyers' market.

The result was a pre-tax loss of £8.3m on sales of £565m in 1992 at UES Holdings, which groups the steel, forging and other closely-related interests.

The deficit was the first for the company, and the recession affected all its businesses. But the steel division in particular is feeling the pressure, says Mr Stone, and is still trading at a loss. The size of UES, and its position in the European market, means it is important for the UK steel industry as a whole, as well as to shareholders in British Steel and GKN, which own 60.9 per cent and 39.1 per cent respectively in UES Holdings.

The company was by far the biggest of the government-sponsored "Phoenix" reorganisations of the steel industry in the mid-1980s, and after the closures of the past 20 years virtually *is* the UK engineering steels industry.

It started shakily, says Mr Stone, but things went well for three years, with profits peaking at £67.3m on sales of £814m in 1989. Since then, he says, "things have gone off the boil".

Not surprisingly, perhaps, the two owners have been taking an increasing interest in their progeny: in September they amalgamated the UES Holdings executive committee into its board structure to improve communications with the businesses. As a result, the company has a part-time non-executive chairman, Mr Don Ford, but no chief executive – Mr Graham Mackenzie, the former incumbent, left by mutual agreement when the changes were announced.

If the short-term situation looks difficult for UES Holdings, it does have a number of things in its favour. As at British Steel itself, there has been a relentless drive to cut costs.

The workforce has been reduced from more than 11,000 at the end of 1988 to about 7,000 at the end of last year. As early as 1990, UES grasped the nettle and closed the Brymbo steel works at Wrexham, with the loss of 1,100 jobs.

Nearly four years later the retrenchment is continuing and 400, mainly staff, jobs are going in the steels division – about 10 per cent of the remaining workforce. But Mr Stone says no further cuts are planned.

However, the company has also grown. It has made a string of acquisitions since 1986, upstream in certain strategically important parts of the scrap business and downstream in stockholding and in bright bar – a shiny steel processed from "black" engineering steel and used in hydraulic and other applications.

It has a seemingly impregnable hold on the UK engineering steels market, with a share of about 68 per cent. Its output of about 1.5m tonnes of steel from Aldwarke and from the smaller, more specialised steelworks at Stocksbridge, north-west of Sheffield, is enough to serve a UK market and leave room to exploit export opportunities.

On the back of the company's investments and cost-efficiency, the outlook Mr Stone foresees for UES Steels is growth relative to the market, which has a long way to go to match capacity, he says.

His hope is that weaker players in the European industry will fall by the wayside, allowing UES to raise its market share even if the amount of steel it produces does not rise.

NEWS IN BRIEF

BIRKBY: shareholders have approved resolution to reduce share premium account and the write-off of goodwill against special reserve.

BOC DISTRIBUTION Services has acquired Onward Transport, a family-owned transport company based in Ackworth, West Yorkshire, for an undisclosed sum.

HALKIN HOLDINGS received applications for its recent rights issue in respect of 2.74m shares (46.9 per cent). Balance placed at premium.

KINGSLEY & FORESTER: Pretax losses £158,000 (£106,000) for six months to September 30 on turnover of £23.3m (£22.7m). Losses per share 0.42p (0.28p).

MICKLEGATE: negotiations with a private property company, announced last June, have been terminated. Directors are in talks with another party and have requested the Stock Exchange to continue share suspension.

NOREX AMERICA in which Norex, the financial services group, has a 48 per cent stake reported net income of \$5.73m (£3.82m) for the three months to December 31, against \$27.8m, for earnings per share of \$0.94 (\$4.55). Net income for the six months was \$8.56m (\$30.8m).

SHERWOOD COMPUTER Services is selling a division of its investment management systems and service business to DST Clarke & Tilley for £110,000 cash.

Alusuisse's Essen plant to close permanently

By Kenneth Gooding, Mining Correspondent

Alusuisse-Lonza is to make the first permanent aluminium output cut to be announced following the agreement by some of the world's big aluminium-producing countries to reduce global annual supply.

The Swiss group is to shut its smelter at Essen in Germany with the loss of 400 jobs. The smelter has an annual capacity of about 130,000 tonnes but recently has been producing only between 40,000 and 50,000 tonnes.

Alusuisse says the smelter has suffered substantial losses and "even if western producing countries and the Commonwealth of Independent States can put into effect agreements on desired production cuts, no significant improvement can be expected for the foreseeable future in the situation for central European aluminium smelters".

As the market absorbed the news from Alusuisse and the overnight statement from Alcoa (the Aluminium Company of America) that it would immediately cut annual output by another 100,000 tonnes, aluminium's price on the London Metal Exchange rose to $1,310 a tonne.

However, chart-based selling of most LME metals affected aluminium in quiet conditions and the price fell back to close at $1,295.50, down $5 a tonne. Analysts said metal prices were due for a correction after recent sharp rises. Also the market was quieter than usual because of the Chinese New Year.

Alusuisse previously closed its Swiss smelter and is now left only with two, one in Iceland, producing about 96,000 tonnes a year, and the other in Norway, producing an annual 40,000 tonnes. It said it had no plans to cut output at these plants.

Alcoa's new cuts, which will result in a first-quarter charge, affect the Rockdale, Texas, and Wenatchee, Washington, smelters.

Analysts suggested that Pechiney's Venthon smelter in France, producing about 30,000 tonnes a year, was another candidate in Europe for permanent shut-down.

LME WAREHOUSE STOCKS
(As at Monday's close)
tonnes

Aluminium	+5,025	to 2,533,250
Aluminium alloy	+240	to 47,160
Copper	-100	to 594,850
Lead	+850	to 321,850
Nickel	+414	to 130,386
Zinc	+3,125	to 1,010,825
Tin	+120	to 21,435

Australian producer cuts iron ore price

By Nikki Tait in Sydney

Hamersley Iron, the big Australian iron ore producer yesterday announced that it would cut iron ore price by an average of 7.6 per cent, following the annual round of negotiations with the Japanese steel mills.

Hamersley, part of the CRA group, said that the price of lump ore would decline by 5.9 per cent to 33.26 US cents a dry long ton unit, while the price of fine ore would fall by 9.5 per cent, to 25.66 cents. This gives a weighted average decrease of 7.6 per cent. The minimum volume to be delivered has been set at 19m tonnes – the same as last year.

This is the third successive year of price cuts. At the beginning of 1993, the price of fine ore fell by 11 per cent, and lump, by 9 per cent.

Hamersley admitted that the negotiations had been "unusually complex and lengthy", and stressed that "agreement should be seen in the context of the parlous state of the Japanese economy".

"The combined losses of the Japanese mills will exceed Y240bn this year and they are forecasting further reductions in steel production and iron ore demand next year. Furthermore, the fact that suppliers of other raw materials have already granted significant price decreases only serves to raise buyers' expectations", said Mr Roddy Kinkead-Weekes, Hamersley's managing director for sales and marketing.

The last comment was a reference to the recently-announced coal price contracts with the Japanese mills, which saw Australian producers take price cuts of up to 9.5 per cent.

Hamersley described the iron ore deal as "mutually satisfactory" under the circumstances – a view generally shared by analysts, and CRA shares rose 38 cents to A$19.26.

Indian tea re-export plan angers growers

By Kunal Bose in Calcutta

The Indian tea industry is up in arms about a proposal to import tea into the country for blending with the locally grown tea and re-export. Growers fear such a move could debase the quality image of the country's tea.

The idea has been around for some years, but the prospect is now looming larger following the commerce ministry's decision to canvas industry opinion about it.

Tea processing units located in the export processing zones are already allowed to import tea for re-export in packets, tea bags or in instant form with a minimum value addition of 20 per cent. But according to Mr S.K. Bhasin, vice chairman of the Indian Tea Association this "has not yielded any worthwhile result".

Tea blenders and exporters maintain, however, that it should be possible to find fair tea in the world market at lower than $1.10 a kilogram, the present average price for south Indian tea.

Mr Mumtaz Ahmad, director of Mcleod Russel, does not agree. "The tea that is available at less than $1 a kilogram is fibrous and stalky," he says. "Much of this tea in India will be treated as waste tea. Therefore, if we import such tea and blend it with Indian tea for re-export, then our tea will get a bad name in the world market."

Mr R.K. Krishna Kumar, managing director of Tata Tea, estimates that India generated about 35m kg of tea waste in 1993 in the course of producing over 755m kg of marketable tea.

"Not many gardens in the country have the expertise to extract tea solids from tea waste," he says. "The tea solids which are water soluble are used to make instant tea. Till now, we are using only a small portion of the tea waste to extract tea solids and caffeine. India is the only tea producing country in the world which strictly enforces quality standards and does not permit the marketing of tea waste. We must not allow the import of tea waste in the name of fair tea."

The tea producing industry feels that once the import of bulk tea is allowed the importers will press the government to let them sell some of it, blended with Indian tea, in the domestic market. Units in the export processing zones are generally allowed to sell 25 per cent of their production in the domestic market. However, the value-added tea produced from imported tea is not allowed to be marketed within the country.

According to Mr Ahmad: "If low value foreign tea finds its way into the Indian market, it will spell disaster for teas grown in south India, Dooars, Terai and Cachar".

Mr Bhasin rejects the contention of the import lobby that "the re-export of tea to be imported in bulk will supplement India's present export of around 200m kg". He thinks such a move would simply lead to replacement of Indian tea exports with teas from other countries. "The government must not forget," he warns, "that India generally has a surplus of over 200m kg of tea which must be exported if there is not to be a crash in tea prices."

However, Mr S.M. Datta, chairman of Hindustan Lever, argued at tea convention organised last year by the consultative committee of plantation associations that India whose annual per capita consumption of the beverage was a "negligible" 630g, should take steps to "accelerate the growth of domestic tea consumption, which would allow the mopping up of the relatively low quality surpluses of Indonesia, Kenya and Malawi".

He suggested that this would make room for the higher quality and higher priced teas from India in the world market "without setting off a price war".

NFU warned against protectionism

By Alison Maitland

The European farming industry must abandon protectionism against agricultural imports from eastern Europe, Sir Leon Brittan, EU trade commissioner, said yesterday.

Sir Leon, addressing the annual meeting of the National Farmers' Union of England and Wales, said relations with eastern Europe were one of the most important issues facing agriculture in the EU in the next few years.

He warned of "disastrous consequences" if the EU failed to help its east European neighbours to make a peaceful transition to mature democracy and stability.

"In the longer term, it is likely that parts of central and eastern Europe will be able to benefit from exporting onto the world market without subsidy, because they have the potential to be tremendously efficient," he said. "This is a prospect which has to be confronted with courage and generosity, not with fear and protectionism."

Concern about an influx of cheap imports from eastern Europe has maintained restrictions on farm products in the association agreements which give preferential trade treatment to Poland, Hungary, the Czech and Slovak republics, Romania and Bulgaria.

The UK soft fruit sector is currently worried about Polish imports of fruit pulp for processing. Mr David Hadley, a senior agriculture ministry official at the meeting, admitted certain sectors faced problems but said EU trade concessions to eastern Europe were "pretty small".

Sir Leon, speaking by video because he was detained in Brussels by the foreign ministers' meeting, said Poland, Hungary, Romania and Bulgaria depended heavily on agriculture.

But these sectors were undergoing upheaval. "Production levels have fallen, privatisation is changing the size of holdings and the type of farming which is practised, previous markets and distribution networks have disappeared," he said.

The EU must help efficient restructuring by offering expertise and funds and by gradually increasing market access and refraining from harmful practices.

"For example, we need to look carefully at our system of export refunds," said Sir Leon. "We have recently ended refunds on apple exports to the Czech and Slovak Republics because our exports were causing serious problems for local apple producers."

Sir Leon sought to reassure EU farmers that the Gatt deal would allow common agricultural policy support to continue unchallenged for nine years, thanks to the "peace clause" agreed between the US and the EU.

But he said one of the main aims of future direct aid to farmers must be to protect the environment.

Joint venturers to develop Argentine mine

By John Barham in Buenos Aires

Australia's MIM Holdings and International Musto Explorations of Canada have announced they will jointly develop Argentina's first world class mine in a $600m project.

The Bajo de la Alumbrera copper and gold mine in the Andes foothills, 1,000km north-west of Buenos Aires, is said to be the largest of its kind in Latin America and one of the ten largest in the world.

Musto completed an 18 month feasibility study of Bajo de la Alumbrera last year. It established reserves of 5.8bn lb of copper and 10m troy ounces of gold, giving the mine a life of at least 20 years.

Argentina's Andes are believed to have geology similar to Chile, which has a major mining industry. But development was until recently hampered by restrictive legislation, political and economic turbulence and lack of a local mining tradition. Last year Argentina reformed its mining laws, scrapping controls on foreign investment.

Mr Lukas Lundin, Musto's president, said the open cast mine would begin production in 1997 at an initial rate of 200m lb of copper and 470,000 ounces of gold a year. He expects a return on investment of at least 15 per cent. The companies have signed a letter of intent and plan to sign a contract in March.

The mine will be developed as a 50:50 joint venture with MIM responsible for operating and financing the project. Mr Phil Wright, MIM's executive general manager for corporate development, said MIM would provide $240m for the project, with the remainder coming from bank project financing.

The property belongs to the state-owned YMAD mining corporation, which will take a 20 per cent share of net profit. Musto holds 100 per cent tenancy of the mine.

The government has promised not to change the project's tax treatment for 30 years, exempted import duties for equipment and placed a 3 per cent cap on royalties.

MARKET REPORT

Charts send gold and silver prices down further

The main precious metals prices extended this week's falls yesterday as charts pointed to tests of the bottom ends of their recent ranges. The GOLD price closed $4.30 down at $380.40 a troy ounce while silver was off 11 cents at $5.23¾ an ounce. On trader suggested gold could test support at $375. "It will be an almighty battle to stop it falling further," he added.

At the London Commodity Exchange COFFEE and COCOA prices both ended the day in the plus columns after coffee steadied itself late in the session following a slide prompted by selling in New York. Dealers said coffee's initial weakness had been inspired by a classic case of "buy the rumour, sell the fact" as the New York market fell after confirmation of a sharp fall in certified stocks.

Compiled from Reuter

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1274-5	1295-6
Previous	1280.5-1	1300-1
High/low		1310/1290.5
AM Official	1283-3.5	1304.5-5
Kerb close		1293-4
Open int.	57,351	
Total daily turnover	273,971	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1129-33	1148-52
Previous	1140-2	1160-2
High/low		1165/1145
AM Official	1138-9	1158-9
Kerb close		1150-6
Open int.	386	
Total daily turnover	3,346	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	498.5-9.5	512-2.5
Previous	506.5-7.5	519-20
High/low	501.5	519/512
AM Official	501.5-2	514.5-5
Kerb close		511.5-2
Open int.	7,790	
Total daily turnover	34,242	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	5770-80	5835-40
Previous	5810-20	5875-85
High/low	5770	5900/5810
AM Official	5760-70	5820-5
Kerb close		5830-5
Open int.	13,473	
Total daily turnover	54,839	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5325-35	5380-90
Previous	5370-80	5425-35
High/low		5480/5375
AM Official	5350-60	5405-10
Kerb close		5370-80
Open int.	4,218	
Total daily turnover	19,503	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	983.5-4.5	1003-4
Previous	1003-4	1023.5-4
High/low		1020/999
AM Official	985.5-6	1005.5-6.5
Kerb close		999-1000
Open int.	24,441	
Total daily turnover	102,444	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1871.5-2.5	1895-6
Previous	1871.5-2.5	1894-5
High/low	1878/1877	1919/1892
AM Official	1877-8	1900.5-1.5
Kerb close		1893-4
Open int.	40,988	
Total daily turnover	260,118	

■ LME AM Official £/$ rate: 1.4736
LME Closing £/$ rate: 1.4710

Spot:1.4720 3 mths:1.4652 6 mths:1.4598 9 mths:1.4558

■ HIGH GRADE COPPER (COMEX)

	Close	Day's change	High	low	Open int	Vol
Feb	86.65	-2.75	88.25	86.50	478	49
Mar	87.05	-2.15	89.00	86.80	35,389	4,250
Apr	86.70	-1.95	88.10	87.90	776	3
May	86.60	-1.95	88.50	86.60	14,592	2,335
Jun	86.75	-1.90	-	-	847	1
Jul	86.60	-2.10	88.50	86.80	6,587	277
Total					68,246	7,053

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold (Troy oz.)	$ price	£ equiv.
Close	380.20-380.60	
Opening	380.10-380.50	
Morning fix	380.45	258.857
Afternoon fix	380.55	258.930
Day's High	381.10-381.50	
Day's Low	379.50-379.90	
Previous close	384.50-384.90	

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	2.83	6 months	2.99
2 months	2.85	12 months	3.12
3 months	2.89		

Silver Fix	p/troy oz.	US cts equiv.
Spot	354.25	522.50
3 months	358.55	526.65
6 months	362.80	531.15
1 year	371.20	541.55

Gold Coins	$ price	£ equiv.
Krugerrand	382-385	257-260
Maple Leaf	390.40-392.90	-
New Sovereign	89-92	60-63

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	low	Open Int	Vol.
Feb	382.3	+3.4	381.1	379.9	858	121
Mar	382.8	+3.4	-	-	18	5
Apr	384.1	+3.4	384.1	381.2	68,941	34,667
Jun	385.6	+3.4	386.5	383.3	29,220	1,417
Aug	388.2	+3.4	386.9	385.6	5,044	127
Oct	390.5	+3.4	389.0	389.0	4,138	132
Total					137,794	50,622

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	low	Open Int	Vol.
Apr	391.6	+0.2	393.0	388.0	14,537	1,650
Jul	392.1	+0.2	393.0	388.5	2,972	50
Oct	392.6	-0.1	393.0	392.0	361	44
Jan	393.6	-0.1	396.0	393.0	189	3
Apr	394.6	-0.1	394.5	394.5	4	-
Total					18,083	1,747

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	low	Open Int	Vol.
Mar	131.85	+2.55	132.50	130.00	2,177	1,003
Jun	131.85	+2.55	132.25	130.00	2,341	355
Sep	131.75	+2.55	-	-	144	2
Dec	131.65	+2.55	131.00	131.00	120	2
Total					4,782	1,362

■ SILVER COMEX (100 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	low	Open Int	Vol.
Feb	528.1	+3.1	523.0	523.0	2	2
Mar	527.0	+3.0	528.5	522.0	71,885	22,691
May	530.5	+3.0	532.0	526.0	21,801	3,143
Jul	533.8	+3.0	535.0	529.0	9,825	900
Sep	537.2	+3.0	534.0	532.0	2,823	242
Dec	542.3	+3.0	544.0	538.0	7,787	689
Total					128,356	27,712

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Mar	15.24	-0.01	15.40	15.17	95,675	42,331
Apr	15.37	+0.07	15.46	15.26	74,002	28,583
May	15.51	+0.10	16.59	15.40	41,610	10,168
Jun	15.65	+0.09	15.73	15.60	54,563	5,624
Jul	15.81	+0.10	15.87	15.76	21,991	2,136
Aug	15.97	+0.11	16.01	15.95	12,094	2,387
Total	[illegible]					

■ CRUDE OIL IPE ($/barrel)

[illegible]

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

[illegible]

■ GAS OIL IPE ($/tonne)

[illegible]

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

[illegible]

■ UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.)

[illegible]

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Mar	97.55	-0.25	97.90	97.60	1,259	85
May	98.35	-0.30	98.50	98.40	1,612	49
Jun	[illegible]					
Sep	[illegible]					
Nov	[illegible]					
Jan	[illegible]					
Total	[illegible]					

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

[illegible]

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

[illegible]

■ BARLEY LCE (£ per tonne)

[illegible]

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

[illegible]

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

[illegible]

■ SOYABEAN MEAL CBT (100 tons; $/ton)

[illegible]

■ POTATOES LCE (£/tonne)

[illegible]

■ FREIGHT (BIFFEX) LCE ($10/index point)

[illegible]

Minor Metals

[illegible]

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Mar	873	+15	875	857	29,738	1214
May	884	+12	887	870	18,320	1204
Jul	[illegible]					
Sep	[illegible]					
Dec	[illegible]					
Mar	[illegible]					
Total	[illegible]					

■ COCOA CSCE (10 tonnes; $/tonnes)

[illegible]

■ COCOA (ICCO) (SDR's/tonne)

[illegible]

■ COFFEE LCE ($/tonne)

[illegible]

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

[illegible]

■ COFFEE (ICO) (US cents/pound)

[illegible]

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs)

[illegible]

■ WHITE SUGAR LCE ($/tonne)

[illegible]

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

[illegible]

■ COTTON NYCE (50,000lbs; cents/lbs)

[illegible]

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

[illegible]

VOLUME DATA

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears.

INDICES

■ REUTERS (Base: 18/9/31=100)

Feb. 6	Feb. 7	month ago	year ago
1780.0	1778.1	1669.0	1738.9

■ CRB Futures (Base: 4/9/56=100)

Feb. 7	Feb. 4	month ago	year ago
227.14	228.44	226.26	198.46

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Feb	72.125	-0.025	72.475	71.975	13,176	9,628
Apr	74.925	+0.100	75.175	74.725	36,264	7,698
Jun	[illegible]					
Aug	[illegible]					
Oct	[illegible]					
Dec	[illegible]					
Total	[illegible]					

■ LIVE HOGS CME (40,000lbs; cents/lbs)

[illegible]

■ PORK BELLIES CME (40,000lbs; cents/lbs)

[illegible]

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME

[illegible]

■ COPPER (Grade A) LME

	Apr	Jul	Apr	Jul
1850	69	100	33	47
1900	43	73	57	70
1950	25	52	89	98

■ COFFEE LCE

	Mar	May	Mar	May
1150	70	95	1	25
1200	27	65	8	45
1250	6	43	37	73

■ COCOA LCE

	Mar	May	Mar	May
850	30	62	7	26
875	15	48	17	39
900	6	37	33	53

■ BRENT CRUDE IPE

	Mar	Apr	Mar	Apr
1400	21	-	10	40
1450	6	32	-	72
1500	2	18	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel/Mar)

		+or-
Dubai	$13.25-3.28w	-0.085
Brent Blend (dated)	$14.05-4.06	-0.52
Brent Blend (Mar)	$14.05-4.06	-0.19
W.T.I. (1pm est)	$15.22-5.27w	-0.16

■ OIL PRODUCTS NWEprompt delivery CIF (tonne)

Premium Gasoline	$151-152	
Gas Oil	$148-149	+0.6
Heavy Fuel Oil	$77-79	+1
Naphtha	$136-140	
Jet Fuel	$162-164	

Petroleum Argus Estimates

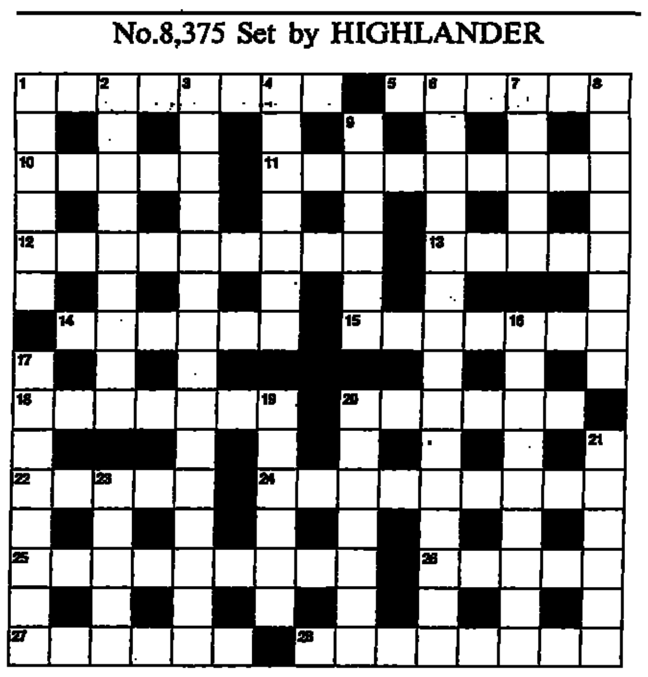
■ OTHER

Gold (per troy oz)♣	$380.40	-4.30
Silver (per troy oz)♣	523.5c	-21.0
Platinum (per troy oz.)	$389.35	-2.15
Palladium (per troy oz.)	$130.60	+2.50
Copper (US prod.)	94.0c	
Lead (US prod.)	35.00c	-1.88
Tin (Kuala Lumpur)	14.50r	-0.05
Tin (New York)	248.50c	-4.00
Zinc (US Prime W.)	Unq.	
Cattle (live weight)†	121.09p	+0.37*
Sheep (live weight)†♣	110.09p	+2.83*
Pigs (live weight)	67.58p	+3.23*
Lon. day sugar (raw)	$269.70	-2.60
Lon. day sugar (wte)	$306.70	-1.20
Tate & Lyle export	$294.60	-1.00
Barley (Eng. feed)	Unq.	
Maize (US No3 Yellow)	£128.0	
Wheat (US Dark North)	£143.5	
Rubber (Mar)♥	64.00p	+0.50
Rubber (Apr)♥	64.25p	+0.50
Rubber(KL RSS No1 Feb)	233.5m	+1.5
Coconut Oil (Phil)§	$575.0x	-10.0
Palm Oil (Malay.)§	$387.5t	+2.5
Copra (Phil)§	$377.5	+0.5
Soyabeans (US)	£204.5y	
Cotton Outlook A Index	79.30c	-0.90
Wooltops (64s Super)	378p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Feb/Apr w Mar. z Jan/Mar. t Apr/Jun. x Feb/Mar. ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. ♣ Sheep (Live weight prices). * Change on week, provisional prices.

CROSSWORD

No.8,375 Set by HIGHLANDER



ACROSS

1 Approach, attracted by organ (4,4)
5 An endless task to fix firmly (6)
10 Keen to hear sound of dawn (5)
11 The old can adjust to athletic competition (9)
12 Outgoing surplus almost more than a ton (9)
13 Girl shows annoyance with quarters (5)
14 Make a mistake taking big university exam (6)
15 Tall girl reported for healthy behaviour (7)
18 Reads through exercises (7)
20 Several like the Commandments set out principles (6)
22 Regret accepting titled companion's decoration on dress (5)
24 Not looked after by local council nor taken in by foster parents (9)
25 Reverse two-wheeled vehicle on to plank – it's easily controlled (9)
26 Wine business protected by husband (5)
27 Best if put round breeding area (6)
28 Traps rendered out of order by nearness (8)

DOWN

1 Reduce current in study (6)
2 Mature queen twice an unfaithful mate (9)
3 Of unsound mind, in common with stepson oddly enough (3,6,6)
4 Apply oneself to where one lives (7)
6 No mutual interest in coming month – no change (7,2,6)
7 Own about fifty split equally (5)
8 Delivered covered in plaster (8)
9 Crush the spirit (6)
16 English say drivers' group backed this type of vehicle (6,3)
17 Drink it provided pear is sliced up first (8)
19 Son fat and short (6)
20 Craft (half mine) is given in part payment (5-2)
21 Pretty boy makes fuss over climbing offence (6)
23 Shackle more than sixty feet (5)

Solution 8,374

S	C	A	R	B	O	R	O	U	G	H		B	U	D
C		M		R		E		N		E		L		R
R	A	I	S	E		A	C	C	E	S	S	O	R	Y
A		C		V		L		A		I		U		D
T	R	A	G	E	D	I	A	N		T	A	S	T	E
C		B				T		N		A		E		N
H	O	L	I	D	A	Y		Y	A	N	K			
Y		E		R						C		P		I
			D	E	A	D		H	O	E	D	O	W	N
Z		L		A		E		U				L		D
O	D	I	U	M		P	I	N	S	T	R	I	P	E
M		V		L		R		D		A		C		C
B	R	I	G	A	D	I	E	R		N	O	I	S	E
I		N		N		V		E		G		N		N
E	R	G		D	R	E	A	D	N	O	U	G	H	T

JOTTER PAD

LONDON STOCK EXCHANGE

MARKET REPORT

Interest rate cut triggers big gains in equities

By Steve Thompson

Two large takeover bids, a smaller bid, bumper profits from one of the market leaders and, to cap it all, a surprise cut in UK interest rates helped the London stock market's recuperation process after Monday's steep fall.

Adding to an early bout of optimism was Wall Street's good performance overnight plus gains in the Far East's two most important markets, Tokyo and Hong Kong.

However, after the initial burst of enthusiasm, the London market began to have second thoughts about the background to the interest rate cuts, and these worries, combined with a shaky opening performance by Wall Street and an abrupt about-turn in gilts, took the gloss off the market's performance.

Long-dated gilts ended the day showing losses of around ⅜, having been up by some 1¼ points at mid-session.

Nevertheless, driven by the weight and importance of the day's news, turnover in the equity market again topped the 1bn shares mark, eventually reaching 1.02bn, continuing the exceptionally high volume levels seen in recent months and ensuring that the City's securities houses are still earning good profits from the market. Second-line stocks accounted for 655.8m shares, or 64 per cent of the turnover total.

Traders preferred to ignore suggestions that some of the market's biggest marketmaking houses, wrongfooted at the end of last week and on Monday when equities plunged in the wake of Wall Street after US interest rates were increased, had again been caught out by a sudden shift in the market.

Account Dealing Dates		
*First Dealings:		
Jan 17	Jan 31	Feb 14
Option Declarations:		
Jan 27	Feb 10	Feb 24
Last Dealings:		
Jan 28	Feb 11	Feb 25
Account Day:		
Feb 7	Feb 21	Mar 7

*New time dealings may take place from two business days earlier.

The FT-SE 100 Index finished a busy session a net 21.1 ahead at 3,440.2, while the FT-SE Mid 250 Index, which was given a push by the two bids, for Westland Group and LWT, advanced strongly to close 54.5 higher at 4,131.6.

Share prices began the session in fine form, bolstered by the good performances from the leading international stock markets in the US and the Far East. Adding to the good news was GKN's bid for Westland and Granada's increased offer for LWT.

Opening some 27 points higher, the FT-SE 100 began to wilt after an early flurry of support, but then raced ahead as the Bank of England signalled a rate reduction of ¼ percentage point. The cut in rates triggered some big support across the market, lifting the 100 index to a day's high of 3,471.7, up 52.6, by around midday, and the 250 index by more than 60 points.

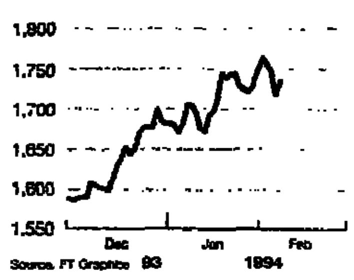
Later, however, Wall Street's uninspiring opening, and weak international bond markets, saw share prices gradually drift back to close on an uncertain note.

Some dealers were perplexed at the timing of the rate cut, and pointed to the continuing political difficulties facing the Conservative government, although it was also noted that the Governor of the Bank of England had said the rate cut was decided last week.

Others, however, remain convinced that the gloom mongers in the market will be proved wrong. "The cash market felt good all day and was only dragged down from its best levels by gilts and the future," said the head of trading at one of the top UK securities houses.

Reuters, the media group, spurted ahead after delivering top of the range results and a share split seen as increasing the stock's marketability. Redland responded to a UBS buy recommendation, while BT shares were unsettled by the latest price-cutting move.

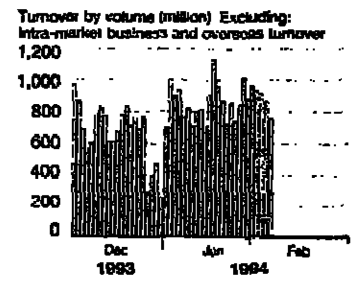
FT-SE-A All-Share index



Source: FT Graphite

Equity Shares Traded

Turnover by volume (million) Excluding: intra-market business and overseas turnover



■ Key Indicators

Indices and ratios

FT-SE 100	3440.2	+21.1
FT-SE Mid 250	4131.6	+54.5
FT-SE-A 350	1745.3	+13.6
FT-SE-A All-Share	1733.58	+14.10
FT-SE-A All-Share yield	3.27	(3.29)
FT Ordinary Index	2641.9	+8.6
FT-SE-A Non Fins p/e	22.60	(22.39)
FT-SE 100 Fut Mar	3440.27	+27.0
10 yr Gilt yield	6.54	(6.52)
Long gilt/equity yld ratio:	2.13	(2.12)

Best performing sectors

1 Extractive Inds ... +3.5
2 Building & Const ... +2.9
3 Merchant Banks ... +2.1
4 Printing, Paper & Pckg ... +1.9
5 Mineral Extraction ... +1.9

Worst performing sectors

1 Tobacco ... -1.2
2 Insurance ... -0.7
3 Telecommunications ... -0.2
4 Household Goods ... -0.1
5 Textiles & Apparel ... -0.1

Frantic trading in Reuters

International news and financial information group Reuters Holdings experienced frantic trading as the company announced that it was splitting its shares and came out with full-year results at the top end of market expectations at £440m.

A share split, which will make the stock more marketable and liquid, had been expected, but most analysts had anticipated a three-for-one deal at best. When Reuters declared that investors would have four shares for every one held, the market price moved up so fast that there were periods of backwardation – a situation where the pace of trading leads to bid prices being temporarily higher than the offer price. At one stage it was technically possible to sell Reuters shares at 1980p and buy them back at 1947p.

Lehman Brothers raised its 1994 forecast by £30m to £530m, giving 88p of earnings. Henderson Crosthwaite, the agency's broker, raised its estimate by £20m to £520m, while BZW adjusted to £505m from £482m. The Reuters share price leaped to a high of 2018p before closing 60 up on balance at 1971p after heavy turnover of 2m.

Drugs firm

Pharmaceutical stocks received support from BZW, one of the UK's leading investment banks, which issued 50m call warrants worth £223m on four internationally traded stocks.

The issue, one of the largest in recent months, comes at a time when securities houses are looking at increasingly sophisticated forms of trading – such as large over-the-counter options tailor made for individual clients – in order to satisfy a growing appetite for equities.

BZW's basket represents three Glaxo shares, 1¼ shares of each class of SmithKline Beecham – the "A"s and the Units – one Wellcome and one Zeneca share. The warrants were priced at 55p each, and 10 warrants give the right to buy one basket for £44.64 any time until expiry on July 31, 1995.

In spite of the early weakness in the New York market and the international nature of the stocks, Glaxo rose 8 to 672p, SmithKline "A" 4 to 417p and the Units 5 to 386p, Wellcome 9 to 646p and Zeneca 8 to 782p.

Oil major British Petroleum ignored a persistently weak oil price and climbed 7 to 385p, with 10m shares traded, on hopes of a stronger dollar and increased enthusiasm over prospects for an oil find west of the Shetland Isles.

Analysts have been aware of the potential of the new field, known as Foinavon, for some time but optimism was rekindled by a positive article in a specialist trade publication. There is also informed talk that BP is commissioning feasibility studies from engineering companies and discussing financing arrangements with leading banks.

Also, any rate rise in the US combined with a rate cut in the UK would normally lead to a stronger dollar against the pound – a situation which would increase BP's currency gains. Burmah, which also gains from a stronger dollar and is largely unaffected by a falling oil price because it concentrates on refining, was squeezed up 19 to 870p.

The market remained unimpressed by GKN's long anticipated hostile bid for helicopter manufacturer Westland Group for nearly £500m. The engineering group already had a 28.3 per cent stake in Westland and is buying the 18.7 per cent stake held by US group United Technologies as a launch pad for its bid. GKN said its offer was for the outstanding ordinary shares at 290p a share in cash or loan notes and it was making a one-for-five rights issue raising £248m to fund the bid.

Shares in both companies registered little change, reflecting the market's coolness towards the proposed deal. GKN firmed 2 to 582p, in trade of a mere 1.4m shares while Westland retreated from the day's high to also finish just 2 ahead at 307p, in negligible volume. The stock is very tightly held.

Several analysts said the fact that the offer was below the current market price was an indication that it was not serious.

Reports that Forte has been outbid in its attempt to buy Ciga, the Italian hotel chain, hit the shares and raised doubts among leisure analysts over the company's European strategy. Forte, and Mr George Soros's Quantum Fund, had made a £270m offer for the group. However, it was dwarfed over the weekend by a £375m bid from Sheraton Hotels, valuing Ciga at a colossal £150,000 per room.

Analysts were relieved that Forte was backtracking from a bidding war. But some argued it would have to pay a premium price as there are very few luxury hotel chains in Europe which qualify as potential targets.

"This leaves a hole in Forte's strategy – if they are unwilling to pay these kind of prices it is unlikely to be filled," said one leading specialist. Another said it would increase pressure on the group to make sure it landed the luxury Savoy chain. Forte settled 3 down at 252p, after 249p, with turnover a busy 7.8m. Savoy was steady at 1028p.

Speculation that Stakis is close to buying a clutch of provincial hotels helped the shares climb 6½ to 92½p.

Price reductions by both BT and Mercury, owned by Cable and Wireless, hit sentiment, particularly in the former. However, analysts said that although the tariff changes would knock some £350m off BT's revenues, volume increases were likely to claw back a sizeable portion. BT shares slid 4½ to 459p. Cable and Wireless gained 4 to 518p. Dealers said sentiment was little affected by news of another entrant into the telecoms market in the shape of MFS from the US. Vodafone, paid £30m for a stake in a distributor, the shares adding 8 to 616p.

Television group LWT jumped 35 to 737p after Granada, the leisure group, announced that it was increasing its final offer for the company to around £776m, the equivalent of 750p a share. Analysts said Granada was now certain to acquire the television group but was paying a very high price. The shares fell 8 at one stage before closing 2 off at 568p.

Building groups were marked sharply higher following the interest rate reduction. Redland put on 18 to 638p, with UBS said to be strong buyers of the stock. Spring Ram, meanhwile, saw hectic trading as the nil-paid rights owned by the Rooney family were placed. The shares added 5 to 22p, with a huge 30m traded. The ordinaries climbed 2 to 75p.

MARKET REPORTERS:
Christopher Price,
Peter John,
Joel Kibazo.

■ Other statistics, Page 22

NEW HIGHS AND LOWS FOR 1993/94

NEW HIGHS (248).

BREWERIES (2) Grosvenor Inns, Regent Inns, BUILDING & CNSTRN (18) AMEC, Banner Homes, Barratt Devlpt., Bellway, Berkeley, Countryside Props., Crest Nichol., EBC, Galliford, Laing (J), Do 8.4pc Pf., Do N/V, Persimmon, Tay Homes, Vibroplant, Wilson Bowden, Wilson(C), Wimpey (G), BLDG MATLS & MCHTS (12) BMSS, Blockleys, Dyson (J.J), Do A, Epwin, Heywood Williams, Do Pf., Ibstock Johnsen, Marshalls, Do 6 1/2pc Pf., Ruberoid, Sheffield Insltn., CHEMICALS (5) Canning (W), Headway, Laporte, Wardle Storeys, Yorkshire Chems., DISTRIBUTORS (10) Brammer, Dagenham Mtrs., Densmans, EW Fact, Ellis & Everard, Evans Halshaw, Gowrings, Norbain, Polar, Wilton, DIVERSIFIED INDLS (5) Kvaerner B, Pacific Dunlop, Ropner, Do A, Trafalgar Hse., ELECTRICITY (5) East Midlands, Manweb, Northern, Northern Ire., South Western, ELECTRNC & ELECT EQUP (10) ENGINEERING (16) ENG. VEHICLES (7) BBA 6¾pc Pf., BSG, Bostrom, Coverdale, Lard, Mayflower Crp., Syltone, EXTRACTIVE INDS (11) FOOD MANUF (2) Matthews (B), Nichols (Vimto), HEALTH CARE (1) Biotrace, HOUSEHOLD GOODS (3) INSURANCE (6) Fenchurch, Nelson Hurst, New London Cap., Premium Underwriting, Syndicate Capital, INVESTMENT TRUSTS (27) INVESTMENT COMPANIES (20) LEISURE & HOTELS (8) Airtours 6 3/8p Pf., Chrysalis, Mandarin Oriental, Savoy, Status, MEDIA (12) MERCHANT BANKS (3) Joseph (L), Schroders, Do N/V, OIL, INTEGRATED (3) Burmah Castrol, Santos, Woodside, OTHER FINANCIAL (10) OTHER SERVS & BUSNS (3) Cape Range, General Mtrs. Units, Lendu, PRTNG, PAPER & PACKG (6) Bemrose, Britton, Cropper (J), Inveresk, Smith (DS), St Ives, PROPERTY (13) RETAILERS, FOOD (2) Park Food, Shoprite, RETAILERS, GENERAL (6) DFS, MFI, Moss Bros, Oliver Grp., Rosebys, Stylo, SUPPORT SERVS (5) BSM, Kewill Systems, Logica, Mitsys, Vega, TEXTILES & APPAREL (3) Allied Text., Dinkie Heel, Richards, TOBACCO (1) BAT Inds., TRANSPORT (7) WATER (3) AMERICANS (3) SOUTH AFRICANS (1)

NEW LOWS (2).

ENGINEERING (1) Neotronics Tech., SUPPORT SERVS (1) Salvesen (C).

EQUITY FUTURES AND OPTIONS TRADING

The surprise reduction in UK interest rates brought a turnround in a declining futures market on a day that once again saw strong volume in the traded options, *writes Joel Kibazo.*

The early strength of the cash market failed to inspire a dull futures sector, where the March contract on the FT-SE 100 Index opened at 3,430, a 10-point discount to cash.

The announcement on the cut in interest rates brought a bounce to the March future, which had fallen to the day's low of 3,425. Buyers returned immediately, sending the contract soaring to the day's peak of 3,480 just before lunch.

However, a poor gilts sector undermined March, as did the tentative start on Wall Street, and the contract drifted lower for the rest of the session, finishing at 3,440, a 3-point discount to cash. Volume remained good, reaching 20,289 lots by the official close.

Business in the traded options was again heavy, particularly in the index options. Total turnover was 63,915 contracts, of which 26,420 were dealt in the FT-SE 100 option and 9,901 in the Euro FT-SE 100 option. In the stock options, British Gas led with 1,916 contracts traded, followed by Hanson at 1,896 lots and Lucas Industries at 1,560. HSBC, BTR and BT were also active.

Business improved on the OMLX Mid 250 market and 762 futures contracts had been traded by the close.

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	3430.0	3440.0	27.0	3480.0	3421.0	24503	61874
Jun	3480.0	3455.0	27.0	3484.0	3454.0	23	11482
Sep	-	3475.0	27.0	-	-	0	390

Contract traded on APT. Open interest figures are for previous day.

■ FT-SE MID 250 INDEX FUTURES (OMLX) £10 per full index point

	Open	Sett price	Change	High	Low	Volume	Open int.
Mar	4120.0	4158.5	+5.0	4190.0	4110.0	752	1,985
Jun		4171.5					

All open interest figures are for previous day.

■ FT-SE 100 INDEX OPTION (LIFFE) (*3443) £10 per full index point

	3250 C	3250 P	3300 C	3300 P	3350 C	3350 P	3400 C	3400 P	3450 C	3450 P	3500 C	3500 P	3550 C	3550 P	3600 C	3600 P
Feb	198	2	147½	4½	104½	8½	65½	22	36	42½	16½	74½	7	118½	2½	167½
Mar	206	18½	166	27	129½	40	96	56½	68½	77½	46½	106½	29½	141	17	180
Apr	220½	31	183	43½	147	57½	116½	76½	88	98	66½	126	46½	157	33	193½
May	242	47	204½	59	170	74	140	93½	110½	114	89½	142½	69	173	53	206
Jun†			228½	68½			157	104½			106	152			66	214

Calls 10,449 Puts 12,109

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

	3275 C	3275 P	3325 C	3325 P	3375 C	3375 P	3425 C	3425 P	3475 C	3475 P	3525 C	3525 P	3575 C	3575 P	3625 C	3625 P
Feb	170½	4	125½	7½	84½	16½	49½	30½	23½	57½	11	93½	4½	136½	1½	183½
Mar	186½	22	146½	31½	111	46	81	65½	56	90½	37	121	23	157	13½	197
Apr			163½	48			101½	85			58	139			28	209½
Jun			203½	75½			140½	113½			96½	164½			60½	127
Sep†			244	98½			185½	137			127	185			98	242½

Calls 2,784 Puts 2,562 * Underlying index value. Premiums shown are based on settlement prices.
† Long dated expiry months.

■ EURO STYLE FT-SE MID 250 INDEX OPTION (OMLX) £10 per full index point

	3950		4000		4050		4100		4150		4200		4250		4300	
Mar	21		30			42	113½	59	85	80	62½	107½	44½		30	
Apr	37½		48		30			80	115½		92		72½		56	

Calls 12 Puts 4 Settlement prices and volumes are taken at 4.30pm.

FT - SE Actuaries Share Indices — The UK Series

	Feb 8	Day's chge%	Feb 7	Feb 4	Feb 3	Year ago	Div. yield%	Earn. yield%	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3440.2	+0.6	3419.1	3475.4	3491.5	2831.3	3.42	5.11	24.29	2.59	1261.07
FT-SE Mid 250	4131.6	+1.3	4077.1	4146.4	4152.8	3019.8	2.95	4.67	26.27	8.72	1501.80
FT-SE Mid 250 ex Inv Trusts	4146.3	+1.3	4092.8	4154.4	4160.2	3028.0	3.04	4.99	24.77	8.68	1502.23
FT-SE-A 350	1745.3	+0.6	1731.7	1760.5	1767.3	1398.4	3.31	5.00	24.73	1.87	1310.74
FT-SE SmallCap	2081.31	+1.3	2055.08	2084.98	2091.07	1522.51	2.63	3.37	37.96	2.70	1580.61
FT-SE SmallCap ex Inv Trusts	2052.21	+1.2	2028.58	2080.72	2055.98	1525.37	2.78	3.71	36.20	2.91	1561.40
FT-SE-A ALL-SHARE	1733.58	+0.8	1719.48	1748.37	1754.48	1381.38	3.27	4.89	25.34	1.89	1325.01

■ FT-SE Actuaries All-Share

	Feb 8	Day's chge%	Feb 7	Feb 4	Feb 3	Year ago	Div. yield%	Earn yield%	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(18)	2665.94	+1.9	2616.99	2654.83	2665.38	2107.80	3.31	4.78	25.91	0.00	1039.93
12 Extractive Industries(4)	4051.47	+3.5	3915.74	3976.82	4023.67	3160.70	3.08	4.51	26.22	0.00	1080.28
15 Oil, Integrated(3)	2577.09	+1.6	2536.76	2571.05	2579.05	1967.70	3.39	4.96	25.16	0.00	1024.73
16 Oil Exploration & Prod(11)	1989.18	+0.9	1971.18	2013.08	2001.38	2002.20	3.00	3.61	35.58	0.00	1127.96
20 GEN MANUFACTURERS(264)	2219.96	+1.3	2190.87	2216.76	2223.52	1696.90	3.32	3.12	43.70	1.71	1099.26
21 Building & Construction(31)	1569.10	+2.9	1525.23	1542.80	1527.94	913.80	2.26	1.22	80.00†	0.48	1200.46
22 Building Matls & Merchs(30)	2357.86	+1.7	2318.17	2339.00	2353.16	1481.40	2.97	2.44	56.55	1.14	1080.35
23 Chemicals(20)	2486.25	+0.7	2468.26	2518.05	2512.22	2116.20	3.71	0.35	‡	0.39	1068.28
24 Diversified Industrials(16)	2206.02	+1.4	2174.58	2195.21	2214.63	1853.00	4.03	4.32	29.39	3.21	1091.10
25 Electronic & Elect Equip(34)	2245.87	+0.4	2236.34	2263.38	2248.00	1806.70	3.28	5.42	22.46	1.10	1067.13
26 Engineering(72)	1993.83	+1.3	1967.47	1999.02	2000.04	1429.50	2.71	1.96	80.00†	2.22	1113.92
27 Engineering, Vehicles(12)	2471.87	+1.6	2432.14	2478.41	2509.51	1801.10	4.19	3.11	44.98	0.06	1161.88
28 Printing, Paper & Pckg(27)	2952.50	+1.9	2897.97	2938.61	2938.19	2252.30	2.74	4.19	26.87	1.44	1134.29
29 Textiles & Apparel(22)	2004.27	-0.1	2006.09	2024.96	2019.39	1878.90	3.26	4.97	25.25	0.14	1103.59
30 CONSUMER GOODS(93)	2977.43	+0.5	2962.03	2988.08	3012.28	2873.40	3.75	6.59	17.88	5.62	992.11
31 Breweries(17)	2321.76	+1.0	2298.90	2329.85	2377.60	2163.90	3.92	7.39	16.63	9.84	1017.33
32 Spirits, Wines & Ciders(10)	3126.74	+0.5	3110.72	3131.48	3180.14	2876.20	3.39	6.15	19.12	19.74	1024.46
33 Food Manufacturers(23)	2535.63	+0.4	2526.22	2547.63	2554.99	2339.70	3.60	6.65	17.83	2.80	1032.28
34 Household Goods(12)	2845.96	-0.1	2848.87	2857.68	2866.35	2400.50	3.01	6.45	17.96	0.00	993.69
36 Health Care(20)	1878.10	+0.5	1867.92	1900.97	1909.43	1828.70	2.86	5.11	23.38	0.82	1083.78
37 Pharmaceuticals(10)	3135.72	+1.1	3101.45	3148.25	3170.44	3263.40	3.84	6.47	18.00	0.00	962.11
38 Tobacco(1)	4278.43	-1.2	4328.77	4282.63	4282.63	4041.40	4.71	7.44	15.67	0.00	921.41
40 SERVICES(220)	2146.29	+0.8	2130.18	2157.25	2171.29	1775.60	2.77	5.25	23.12	2.51	1030.29
41 Distributors(31)	3225.57	+0.2	3218.94	3282.27	3296.69	2498.50	2.60	4.85	26.04	1.24	1090.14
42 Leisure & Hotels(22)	2306.03	+0.1	2303.75	2345.16	2345.40	1756.70	3.52	5.09	23.59	9.05	1115.73
43 Media(39)	3292.71	+1.5	3244.25	3276.31	3298.19	2208.60	1.85	3.88	30.71	1.60	1120.56
44 Retailers, Food(17)	1613.66	+1.3	1593.14	1616.30	1640.75	2045.40	3.80	9.90	12.54	1.82	937.01
45 Retailers, General(43)	1804.45	+0.9	1788.17	1805.12	1824.69	1459.50	2.84	5.14	24.42	1.75	942.38
48 Support Services(40)	1819.57	-0.3	1824.91	1864.29	1862.77	1529.60	2.16	6.27	18.23	0.83	1084.94
49 Transport(16)	2781.78	+0.3	2774.14	2799.92	2805.86	2054.30	3.00	3.27	34.59	2.46	1066.54
51 Other Services & Business(12)	1354.79	+1.3	1338.01	1381.54	1353.12	1388.00	3.51	3.18	44.79	0.60	1139.98
60 UTILITIES(36)	2691.62	+0.2	2687.17	2731.45	2742.30	2036.10	3.70	7.91	15.25	5.18	1006.46
62 Electricity(17)	2572.86	+0.7	2555.25	2589.81	2600.58	1575.80	3.22	9.62	12.77	14.65	1038.50
64 Gas Distribution(2)	2257.88	----	2257.50	2307.47	2336.25	1876.30	5.19	7.52	16.61	0.00	997.59
66 Telecommunications(4)	2375.00	-0.2	2380.14	2420.83	2423.12	1931.70	3.33	5.96	20.57	0.00	987.73
68 Water(13)	2094.17	+0.4	2086.05	2117.59	2126.79	1711.60	4.41	10.81	10.21	3.48	1007.59
69 NON-FINANCIALS(631)	1842.10	+0.9	1826.41	1849.60	1858.93	1622.19	3.34	5.42	22.60	2.29	1286.67
70 FINANCIALS(106)	2683.35	+0.5	2650.97	2737.13	2727.76	1791.40	3.14	3.03	47.12	0.66	1019.30
71 Banks(10)	3468.31	+0.3	3458.03	3601.56	3573.77	2201.60	2.73	3.59	37.28	0.08	1002.72
73 Insurance(18)	1509.16	-0.7	1520.44	1545.26	1564.85	1287.00	4.40	‡	‡	0.09	994.35
74 Life Assurance(6)	2758.26	+0.2	2753.30	2808.96	2847.67	2366.90	4.23	4.41	28.53	0.00	1013.35
75 Merchant Banks(6)	3730.04	+2.1	3653.52	3748.17	3754.18	2087.30	2.38	5.86	20.92	0.00	1092.94
77 Other Financial(25)	2244.27	+1.6	2209.19	2279.35	2272.21	1313.60	2.77	4.82	26.14	5.00	1167.99
79 Property(40)	1879.84	+1.7	1847.72	1896.66	1869.49	1110.20	3.28	2.96	44.94	1.76	1048.51
80 INVESTMENT TRUSTS(118)	3114.21	+1.7	3062.10	3172.43	3179.20	2228.30	2.04	1.64	60.88	5.33	1030.28
89 FT-SE-A ALL-SHARE(855)	1733.58	+0.8	1719.48	1748.37	1754.48	1381.38	3.27	4.89	25.34	1.89	1325.01

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	3446.4	3430.5	3451.9	3460.3	3464.8	3467.5	3464.5	3449.0	3443.5	3471.7	3424.2
FT-SE Mid 250	4099.2	4099.6	4119.1	4131.2	4138.2	4141.9	4141.2	4136.8	4132.6	4142.3	4095.0
FT-SE-A 350	1744.5	1738.4	1748.6	1753.1	1755.5	1757.0	1755.7	1749.3	1746.7	1758.1	1736.8

Time of FT-SE 100 High 11:20am Low 9:15am

■ FT-SE Actuaries 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	1491.2	1490.0	1504.8	1524.5	1532.0	1532.8	1533.1	1528.6	1525.5	1526.2		1481.5	+44.7
Pharmaceuticals	3093.5	3081.0	3108.7	3124.2	3131.4	3133.4	3129.7	3115.7	3112.9	3104.8		3070.3	+34.3
Water	2089.8	2085.0	2092.5	2088.5	2094.6	2094.5	2094.4	2094.0	2093.2	2092.8		2084.3	+8.0
Banks	3547.3	3531.3	3570.6	3581.7	3579.9	3575.8	3575.1	3549.8	3557.6	3524.6		3501.2	+10.2

TRADING VOLUME

■ Major Stocks yesterday

	Vol. 000s	Closing price	Day's change
ASDA Group†	20,000	57½	-1½
Abbey National†	7,500	508	+8
Albert Fisher	1,900	70	+2
Allied-Lyons†	2,400	627	+3
Anglian Water†	1,900	675	+1
Argos	511	374	+2
Argyll Group†	4,500	281	+3
Arjo Wiggins†	4,000	294	+11
Assoc. Brit. Foods†	141	575	-2
[illegible]	[illegible]	[illegible]	[illegible]

LONDON EQUITIES

LIFFE EQUITY OPTIONS

Option		Calls Apr	Calls Jul	Calls Oct	Puts Apr	Puts Jul	Puts Oct	Option		Calls Feb	Calls May	Calls Aug	Puts Feb	Puts May	Puts Aug
Allied-Lyons	600	45	53½	82½	12½	30	34½	Hanson	280	17	21½	25	1½	7½	11½
(*626)	650	18	28	38	37	58	62	(*285)	300	4	10½	15½	8½	16½	21½
Argyll	280	17	25	29½	13½	22½	26	Lasmo	130	11	18	24½	4½	12½	17½
[illegible]															

FT GOLD MINES INDEX

[illegible]

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	57	11	9
Other Fixed Interest	11	0	4
Mineral Extraction	80	58	69
General Manufactures	383	37	264
Consumer Goods	88	21	84
Services	280	37	223
Utilities	38	5	3
Financials	213	36	141
Investment Trusts	408	2	53
Others	62	30	27
Totals	1,600	237	877

Data based on those companies listed on the London Share Service.

TRADITIONAL OPTIONS

First Dealings	Feb. 7	Last Declarations	May 12
Last Dealings	Feb. 18	For settlement	May 23

Calls: ASDA, BTR Wts '98, Carpetright, Caverdale, Fairhaven, Hanson Wts, Hobson, Johnson Fry, Kunick, Lep, Lucas, MTM, Metrotect, Middlesex Grp, Premier Cons Oil, Proteus, Regina, TR Tech, Trans World, Wiggins. Puts: Greenwich Res, Hobson, Johnson Fry, Lucas, Wiggins. Puts & Calls: Kunick.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1993/94 High	1993/94 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
-	F.P.	90.7	75¼	66¾	Barng Emrg Euro	73¼	+2½	-	-	-	-
-	F.P.	10.0	49½	33¾	Do Warrants	40½	+1	-	-	-	-
§90	F.P.	7.43	173	108	Comp Fin Sol	158	+25	N-	-	-	24.6
100	F.P.	49.6	100	96	Fairbairn Eur Sm	97	+1	-	-	-	-
100	F.P.	30.4	122	100	For & Col Small C	119½	+2	-	-	-	-
60	P.P.	18.0	60	59	Friends Prov Eth	60		-	-	-	-
120	P.P.	37.8	128	121	Do. Units	126	+2	-	-	-	-
60	P.P.	18.6	63	61	Do. Zero Div Pf	62	+1	-	-	-	-
-	F.P.	5.63	93	83	Pantheon Wrts	83		-	-	-	-
§10	F.P.	2.23	12	10¼	Rosemont	12		-	-	-	-
§120	F.P.	13.8	148	122	Simmo	146	+5	R3.7	2.5	3.2	15.4
-	F.P.	0.56	15	9	Thornton P.E. Wts.	14		-	-	-	-
-	F.P.	3.10	52¼	51	Do. Zero Div. Pf.	51¼		-	-	-	-

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1993/94 High	1993/94 Low	Stock	Closing price p	+or-
48	Nil	17/2	20pm	8pm	Anglo Irish	19pm	
25	Nil	21/3	12pm	8pm	‡Beckenhan Grp	8pm	
120	Nil	16/3	112pm	103pm	Berisford	112pm	
11	Nil	28/2	20pm	16½pm	Carlisle	16½pm	
88	Nil	9/2	25½pm	9pm	Crest Nicholson	24pm	+1
25	Nil	8/2	1¾pm	¾pm	‡Ramus	1¾pm	
53	Nil	23/1	22½pm	16pm	Spring Ram	22pm	
275	Nil	25/3	40pm	38pm	Stanley Leis.	38pm	
10	Nil	1/3	22pm	21pm	Utility Cable	22pm	
51	Nil	25/2	12pm	8pm	Worthington	12pm	+1

pm Price at a premium.

FINANCIAL TIMES EQUITY INDICES

	Feb 8	Feb 7	Feb 4	Feb 3	Feb 2	Yr ago	*High	*Low
Ordinary Share	2641.9	2633.3	2668.2	2694.0	2713.6	2194.0	2713.6	2124.7
Ord. div. yield	3.51	3.53	3.48	3.45	3.43	4.31	4.62	3.43
Earn. yld. % full	3.97	4.00	3.94	3.91	3.89	5.87	6.38	3.89
P/E ratio net	31.76	31.56	31.99	32.29	32.46	21.72	32.46	19.40
P/E ratio nil	29.44	29.26	29.65	29.93	30.09	20.04	30.09	18.14

*For 1993/94, Ordinary Share Index since compilation: high 2713.6 2/02/94; low 49.4 26/6/40
FT Ordinary Share Index base date 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2647.9	2636.1	2652.8	2656.5	2658.2	2664.4	2660.4	2648.9	2647.7	2664.7	2632.5

	Feb 8	Feb 7	Feb 4	Feb 3	Feb 2	Yr ago
SEAQ bargains	41,169	54,033	38,950	45,613	43,564	34,101
Equity turnover (£m)†	-	2074.0	1963.4	2438.2	2095.5	1582.6
Equity bargains†	-	57,556	43,840	49,781	48,737	36,649
Shares traded (ml)†	-	768.3	850.3	916.6	936.6	608.9

† Excluding intra-market business and overseas turnover.

BANKS

	Notes	Price	+ or -	1993/94 high	low	Mkt Cap£m	Yld Gr's	P/E
ABN Amro Fl		£23⅜	+⅜	£25¾	£18⅛	6,637	4.4	12.7
ANZ A$		263¼	+1½	269	130	3,461	3.4	20.7
Abbey National	†□	508	+8	524	345	6,659	2.9	19.6
Allied Irish I£		290	+12	314	179	1,810	3.6	14.8
Anglo Irish I£		67	—	70	28	81.9	6.4	12.2
Asahi Y		695¾	+6¾	844	415	16,141	0.6	—
Banco Bil Viz Pta		£15⅞		£17⅞	£13⅜	3,613	5.3	7.0
Banco Sant Pta		£32⅛	—	£36	£24⅞	3,589	4.1	12.2
Bank Leumi (UK)		375	—	375	325	30.7	5.7	—
Bk Ireland I£		293	+10	319	177	1,381	4.3	21.6
Bank Scotland	†□	232	+6	247	116½	2,700	2.5	31.5
9¼pc Pf		139½	+¾	141½	117¾	139.5	8.3	-
9¾pc Pf		146	+½	148½	123½	146.0	8.3	—
Barclays	†□	599	-8	652	352	9,599	2.7	—
Dai Ichi Kan Y		£12¼		£15⅞	£8¾	38,181	0.4	67.7
Deutsche DM		£309⅝	+6⅜	£348⅞	£250½	14,747	2.0	—
Espirito Santo		£25⅝		£28⅞	£16½	271.0	3.2	6.1
First Nat Fin	N□	88	+3	95	45	146.7	2.1	—
8.3pc Cv Pf		89	+2	91	55	5.98	8.8	-
7pc Cv Pf		165½	+2½	169	105	78.5	5.3	-
Fuji Bank Y		1394½	+17¾	1651	876	40,376	0.4	—
HSBC HK	†□	1084	+27	1133	474	18,162	2.3	25.5
HSBC (75p Shs)	†□	1043	+27	1113	490	8,563	2.4	25.0
Lloyds	†□	606	-9	690	482	7,781	3.9	17.3
Mitsubishi Y		£17⅜		£19¾	£11⅜	61,719	0.3	—
Mits Tst & Bk Y		902¾	+19	1012½	462½	11,796	0.6	14.5
Mitsui Tst & Bk Y		724¾	+42½	862	374	8,682	0.7	24.7
Nat Aust A$		614¾	+7	629¾	322	8,083	3.9	15.0
NatWest	†□	542	-14	604	398	9,008	4.1	32.9
Ottomans FFr		£33		£33	£23¾	165.0	4.5	9.7
Ryl Bk Scotland	N□	490	-7	526	207	3,987	2.8	22.6
Sakura Y				£11	£5¼	30,874	0.6	58.2
Sanwa Y	s	£13⅞		£16	£7¾	39,320	0.4	-
Standard Chartd	†□	1363	-17	1437	576	3,271	1.9	—
7 3/8pc Pf		105	—	108½	104½	105.0	8.8	-
Sumitomo Y		£13½		£16¾	£8⅝	42,380	0.4	29.1

BREWERIES

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

BUILDING MATS. & MERCHANTS - Cont.

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD MANUFACTURERS

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

	Notes	Price	+ or -	1993/94 high	low	Yld Gr's	NAV	Dis or Pm(-)
Paribas French	☐	145	+4	149	90	1.0	145.1	0.1
Perpetual Japan	☐	113½	+4½	118	83	–	103.6	-8.7
Warrants	☐	62	+3	66	37	–	–	–
Personal Assets	†	£93½	+3	£93½	£76½	2.5	9632.6	2.9
Pilot Inv	☐	151	+1	153	96	0.4	140.0	-7.3
Warrants	☐	65	–	68	21	–	–	–
C	☐	114	+1½	117	100	–	109.1	-4.3
Primadona		273	–	283	157	2.1	323.4	15.6
R&I Capital	☐	185½	+2½	189	100	0.8	225.5	17.7
2½pc Cv Ln 2000		£183½	+3½	£186½	£100½	1.4	–	–
Railtrust	☐	61	+1	66	47	–	68.6	-15.3
Rights & Iss Inc	†	163	+3	163	114	6.4	–	–
Cap		523	+15	635	303	2.0	564.5	7.4
Riv & Merc Am Inc		120	+2	120	108	8.1	–	–
Cap	☐	37	+1	38	27	–	48.3	23.4
Warrants		17	+1	17	11	–	–	–
Riv & Mer Ext	N☐	147xd	+4	147	87	6.8	140.6	-4.4
Warrants		49	+6	49	13	–	–	–
Zero Div Pf		117½	+½	118½	103	–	–	–
Riv & Mer Geared		110	+2	118	81	8.6	–	–
Prfd Cap 1999		34½	+2	36	18	–	40.7	15.2
Riv & Merc Smlr	N☐	168	+4	170	95	3.0	156.3	-5.8
Warrants		76	+7	77	22	–	–	–
Riv & Merc Tst Inc	☐	123	+3	127	108	8.3	–	–
Cap	☐	148	+10	150	55	–	257.5	42.5
Warrants		40	+3	40	8	–	–	–
Do. Stpnd Prf	N	162	+½	163	147	4.3	–	–
River Plate Inc	N☐	109	+2	118	98	10.2	–	–
Cap		113	+10	118	26	–	205.9	45.1
Warrants		9	+1	11	1	–	–	–
Zero Div Pf		85	+¼	85¼	77¼	–	–	–

SOUTH AFRICANS

	Notes	Price	+ or -	1993/94 high	low	Mkt Cap £m	Yld Gr's	P/E
Anglo Am Ind		£19	+¼	£19	£11½	1,133	3.7	16.0
Barlow		£6⅝	–	£6⅞	£4	908.2	7.1	8.4
Gold Fields SA R		£13¹⁵⁄₁₆xd	-⅛	£18	£7¼	1,332	2.9	23.2
NK Props	s	95	–	97	68	3.82	9.3	39.1
SASOL	♥	332	–	332	215	1,880	4.7	–
SA Brews		£13⅞	-¼	£15¹⁄₁₆	£7¹⁵⁄₁₆	7,336	2.0	22.4
Tiger Oats		713	–	830	513	1,071	2.3	15.1
Tongaat-Hulett	†	522xd	–	522	212	390.7	2.9	14.6

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel Financial, a member of the Financial Times Group

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

☐ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non UK stocks through the SEAQ International system.
• Highs and lows marked thus have been adjusted to allow for rights issues for cash
† Interim since increased or resumed
‡ Interim since reduced, passed or deferred
ɸ Figures or report awaited
♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
♣ Free annual/interim report available, see details below.
✲ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
‡‡ Not officially UK listed; dealings permitted under Rule 535(2)
‖ Price at time of suspension
¶ Indicated dividend yield after pending scrip and/or rights issue.
† Merger bid or reorganisation in progress
§ Forecast dividend yield; p/e based on earnings updated by latest interim statement.
♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v Not subject to ACT.
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1994-95
G Assumed yield after pending scrip and/or rights issue
H Yield based on prospectus or other official estimates for 1993.
K Yield based on prospectus or other official estimates for 1994
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1993 94.
N Figures based on IIMR "Headline Earnings"
P Figures based on prospectus or other official estimates for 1994
R Forecast annualised yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1235 a year for each security shown, subject to the Editor's discretion

FT Free Annual Reports Service

You can obtain the current annual/interim report of any company annotated with ♣. Ring 081 770 0770 (open 24 hours including weekends) or fax 081 770 3822, quoting the code FT4040. [If calling from outside UK, dial +44 81 770 0770 or fax +44 81 770 3822] Reports will be sent the next working day, subject to availability. If faxing please remember to state the weekly changing FT code above and also your post code.

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An international service is available for callers outside the UK, annual subscription £250 stg.

Call 071-873 4378 (+44 71 873 4378, International) for more information on FT Cityline.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (✠) - 0001 to 1100 hours; (♦) - 1101 to 1400 hours; (▲) - 1401 to 1700 hours; (#) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071-379-0444.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

TSB Unit Trusts (1200)F
Charlton Pl, Andover, Hants, SP10 1RE 0264 345794

	Init Charge	Cancel Price	Bid Price	Offer Price	+ or -	Yield Gr's
TSB American	6	225.32	228.32	242.90	+1.95	-
Do Accum	6	251.48	251.48	267.54	+2.15	-
TSB Unit Growth	6	102.50	102.50	109.04	-7.38	1.52
Do Accum	6	171.38	171.38	179.13	+2.83	1.52
TSB European	6	114.19	114.19xd	121.48	+2.34	0.14
Do Accum	6	121.36	121.36xd	129.11	+2.48	0.14
TSB Extra Income	6	223.05	226.25	240.69	+4.07	3.31
Do Accum	6	364.70	369.92	393.53	+7.38	3.31
TSB Smaller Cos	6	80.73	82.77	88.05	-1.58	0.65
Do Accum	6	89.75	92.02	97.89	+1.88	0.65
TSB General	6	313.80	318.08xd	338.39	+1.12	0.83
Do Accum	6	831.75	840.78xd	881.49	+8.27	1.91
TSB Premier Income	5	55.78	56.77xd	59.14	[illegible]	1.91
Do Accum	5	121.82	123.18xd	128.31	+0.23	5.51
TSB Income	6	385.45	391.17	416.06	+0.48	5.51
Do Accum	6	876.37	828.93	881.20	+7.95	2.91
TSB Pacific	6	461.58	461.58	491.04	+18.20	2.91
Do Accum	6	485.00	485.00	515.90	+3.42	-
TSB International	6	586.64	586.84	624.08	+3.60	-
Do Accum	6	769.92	769.92	819.06	+7.46	0.07
TSB Nat Resources	6	182.58	182.58	194.22	+9.79	0.07
Do Accum	6	200.38	200.38	213.15	+0.98	0.01
TSB Sictd Opps	6	121.05	122.07	129.86	+1.06	0.80
Do Accum	6	152.75	154.04	163.87	+2.81	0.80
Environmental Inv	6	68.89	68.89	73.29	+2.54	1.33
Do Accum	6	74.89	74.89xd	79.65	-1.51	1.33
TSB Selector	6	70.24	71.36	75.91	+1.84	1.88
Do Accum	0	78.05	79.30	84.36	+7.31	1.88
TSB High Income	6	72.46	73.28	77.97	+1.45	3.99
Do Accum	6	88.17	89.18	94.89	+1.72	3.99
TSB Intl Income	6	63.79	64.23	68.33	+2.18	4.42
Do Accum	6	75.21	75.74	80.57	+0.45	4.42
TSB Selector Income	6	68.23	69.02	73.43	+0.53	4.52
Do Accum	6	77.60	78.43	83.44	+1.04	4.52

T.U. Fund Managers Limited (1200)H
NLA Tower, Addiscombe Road, Croydon 081-688 4355

T U British	5	360.8	368.2	389.4	+6.7	2.40
T U European		53.96	53.96	56.47	+0.32	2.00

Templeton Unit Trust Managers Ltd (1200)F
20 Castle Terrace, Edinburgh EH1 2EH 031-228 3932

Global Growth Acc	6	234.35	234.75	251.67	+1.95	1.43
Global Growth Inc	6	212.56	212.92	227.73	+1.79	1.43

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INSURANCES

AXA Equity & Law Life Assce
Amersham Road, High Wycombe 0494 463463

	Bid Price	Offer Price	+ or -	Yield Gross
UK Equities Ser 5	1007.2	1060.2	+21.4	-
Higher Income Ser 5	1090.9	1148.3	+24.6	-
Property Ser 5	525.2	552.8	+0.5	-
Fixed Interest Ser 5	425.6	447.9	+4.2	-
Index Lnkd Secs Ser 5	188.2	198.1	+1.6	-
Gtd Deposit Ser 5	288.2	304.4	+0.2	-
Nth America Ser 5	433.7	456.5	+3.8	-
Far East Ser 5	594.8	626.2	+18.1	-
Europe Ser 5	374.2	393.8	+8.4	-
International Ser 5	575.1	605.3	+11.3	-
Balanced Ser 5	720.3	758.2	+14.1	-
Reserve Ser 5	149.5	157.3	+0.5	-
Opportunity Ser 5	165.6	174.3	+2.0	-
Distribution Ser 5	110.1	115.8	+0.8	-
Pens Equity Ser 3 (z)	1398.5	1467.5	-38.3	-
Pens Higher Inc S 3 (z)	337.8	356.5	-8.4	-
Pens Fixed Int S 3 (z)	569.9	599.8	-3.0	-
Pens Index-Linked Ser 3 (z)	243.2	255.9	-1.7	-
Pens Property S 3 (z)	488.6	514.2		-
Pens N America S 3 (z)	189.6	199.5	-5.4	-
Pens Far East S 3 (z)	343.7	361.7	-8.2	-
Pens Europe S 3 (z)	206.9	217.7	-4.8	-
Pens Overseas S 3 (z)	859.2	904.4	-20.0	-
Pens Balanced S 3 (z)	879.0	888.3	-17.2	-
Pens Cash S 3 (z)	420.3	442.2	-	-
Pens DAF Series 3 (z)	235.2	247.5	-	-
Pens DAF Series 1 (z)	466.5	491.0	-	-
Pens Opportunity S 3 (z)	177.5	186.8	-4.6	-
Pens Reserve S 3 (z)	172.8	181.8	-0.4	-

Abbey Life Assurance Co Ltd
80 Holdenhurst Road, Bournemouth 0202 292373

Prop. Ser. 1	273.1	287.5		-
Equity Ser. 1	784.5	784.3	+2.40	-

[illegible]

OTHER UK UNIT TRUSTS

[illegible]

FT MANAGED FUNDS SERVICE

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	Bid Price	Offer Price	+ or -	Yield Gross
Royal Liver Assurance				
Royal Liver Building, Liverpool, L3 1HT. 051-236 1451				
UK Equity	84.8	89.0	—	-
Global Equity	62.3	65.8	—	-
High Yield	91.8	96.2	—	-
Intl Equity	90.3	95.0	—	-
Fixed Interest	82.8	88.9	—	-
Money	76.1	80.1	—	-
Managed	85.9	90.4	—	-
Pensions				
UK Equity	92.7	97.6	—	-
Global Equity	66.8	70.3	—	-
High Yield	96.2	101.3	—	-
Intl Equity	101.7	107.0	—	-
Fixed Interest	99.50	104.7	—	-
Money	94.1	99.1	—	-
Managed	97.3	102.4	—	-
Tax Exempt				
Tax Exempt Mgd	72.9	76.7	—	-
S-E-Banken Life Assurance Co Ltd				
149-151 High Rd, Chadwell Hth RM6 6PJ 081-597 7566				
Managed Fund	161.7	170.3	-2.3	-
Pension Mngd Fd	182.9	192.6	-3.2	-
Save & Prosper Group (z)				
16-22 Western Rd, Romford RM1 3LB 0708-766966				
Bal Inv Fd	786.9	832.7	+2.3	2.10
Coverdale AS Bond Fd	169.8	178.7	-1.2	-
Deposit Fd†	359.7	380.7	—	5.76
Directors' Portfolio	89.7	95.0	+1.1	-
Equity Pens Fd	202.7	214.5	+1.8	-
European Mngd Fd	69.9	74.0	—	-
Gilt Fd	542.2	573.8	-3.4	7.59
Gilt Pens Fd	149.0	157.7	-1.0	7.04
Global Equity Fd	247.6	262.1	+0.8	-
Global Eq Pens Fd	247.6	262.1	+1.2	-
High Int Pens Fd††	132.1	139.8	—	5.54
Japanese Mngd Fd	90.4	95.7	+0.2	-
Managed Income Fd	62.7	66.8	+0.2	5.78
Man Pens Fd	209.0	221.2	+1.0	1.79
North American Mngd Fd	71.8	76.0	-0.1	-
Pacific Mngd Fd	92.4	97.8	-1.4	-
Property Fd*	96.3	102.0	—	6.11
Prop Pens Fd*	126.2	133.6	—	6.77
Thornton Lambert Managed	241.5	255.5	+0.3	-
UK Capital Portfolio	66.2	70.1	+0.7	-
UK Managed Gilt Fd	63.5	67.3	+0.5	-
†Weekly dealings. *Fortnightly dealings				
Scottish Amicable				
150 St Vincent St, Glasgow 041-248 2323				
Life Funds (First Series)				
Managed	485.7	511.3	+8.50	-
Equity	672.1	844.4	+8.30	-
Property	285.9	301.0	+4.40	-

	Bid Price	Offer Price	+ or -	Yield Gross
Skandia Life Assurance Co Ltd - Contd.				
Fidelity Managed	217.7	229.1	-4.1	-
Fleming Managed Inv Tst	147.8	155.5	-5.6	-
F & C Investment Trust	188.3	198.2	-8.2	-
Framlington Managed	246.0	258.9	-3.7	-
Gartmore Managed	276.0	290.5	-4.4	-
Henderson Managed	276.1	290.6	-5.4	-
Hill Samuel Managed	241.2	253.8	-4.4	-
Invesco Managed	209.4	220.4	-3.6	-
James Capel Core Mngd	145.8	153.5	-2.8	-
Kleinwort Benson Mngd	145.1	152.7	-2.3	-
Martin Currie Mngd	161.9	170.4	-2.9	-
Morgan Grenfell Mngd	165.4	174.1	-2.3	-
Murray Johnstone Managed	159.0	167.3	-4.9	-
Perpetual Managed	230.3	242.4	-5.0	-
Schroder Managed	143.2	150.7	-2.2	-
Pension Managed Funds				
Skandia Cautious	162.9	171.4	-2.6	-
Skandia Balanced	619.8	652.4	-10.6	-
Skandia Ethical Selection	142.7	150.2	-0.4	-
Skandia Deposit	447.9	471.4	+0.1	-
Abtrust Managed	149.0	156.8	-3.3	-
Baring Managed	170.7	179.6	-4.5	-
BZW Managed	135.5	142.6	-2.3	-
CU Managed	305.1	321.1	-7.6	-
Fidelity Managed	244.9	257.7	-5.6	-
Fleming Managed Inv Tst	172.2	181.2	-8.2	-
F & C Investment Trust	217.0	228.4	-10.9	-
Framlington Managed	382.8	403.0	-7.1	-
Gartmore Managed	414.8	436.6	-7.9	-
Henderson Managed	369.7	389.1	-8.6	-
Hill Samuel Managed	315.8	332.2	-8.2	-
Invesco Managed	295.1	310.6	-8.6	-
James Capel Core Mngd	165.2	173.8	-3.9	-
Kleinwort Benson Mngd	156.1	164.3	-3.1	-
Martin Currie Mngd	182.5	192.1	-4.1	-
Morgan Grenfell Mngd	188.5	198.4	-3.1	-
Murray Johnstone Mngd	171.6	180.6	-4.2	-
Perpetual Managed	282.6	297.4	-7.3	-
Schroder Managed	157.6	165.7	-3.0	-
Standard Life Assurance Company				
1 George St, Edinburgh EH2 2XZ 031-225 2552				
Managed	744.0	783.2	+12.6	-
Equity	1066.1	1122.3	+31.0	-
Fixed Interest	421.7	443.9	+4.2	-
Index-Linked	216.9	228.4	+1.0	-
International	656.1	690.7	+6.3	-
North American	150.9	158.9	+2.0	-
Far East	187.6	197.5	+2.0	-
European	175.6	184.8	+3.1	-
Property	337.1	354.9	+0.1	-
Cash	262.3	276.2	—	-
Pension Managed	1051.0	1106.4	+18.9	-
Pension Stock Exchange	238.2	250.8	-4.4	-

OFFSHORE INSURANCES

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

IRELAND (REGULATED)(**)

JERSEY (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

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[illegible]

LUXEMBOURG (SIB RECOGNISED)

[illegible]

LUXEMBOURG (REGULATED)(**)

[illegible]

SWITZERLAND (SIB RECOGNISED)

[illegible]

OTHER OFFSHORE FUNDS

[illegible]

MANAGED FUNDS NOTES

[illegible]

CURRENCIES AND MONEY

MARKETS REPORT

Rate cut hits Sterling.

Sterling yesterday moved lower against leading currencies after the Bank of England announced a 25 basis point cut in the minimum lending rate, *writes Philip Gawith.*

The decision to cut rates to 5.25 per cent from 5.50 per cent received a mixed reception in the market. Some applauded the scope and timing of the move, while others questioned the government's motives and said it would harm sterling.

Sterling fell by nearly two pfennigs against the D-Mark to trade at DM2.59 before recovering to close in London at DM2.5956 from DM2.6111 on Monday. It also fell by over a cent to close at $1.47 from $1.4811 on Monday.

While sterling's drop was by no means calamitous, observers said the extent of its weakening left the rate cut "at the margin" in terms of success.

■ The Bank's announcement caught the market unawares. Most observers had been predicting a ½ per cent cut in late March ahead of tax increases that come into effect in April. It is ten years since the Bank last cut rates by a ¼ per cent. Many in the market welcomed this new approach saying it lent greater flexibility to the conduct of monetary policy. Others noted that it appears to represent a shift towards the more incremental, fine-tuning of policy favoured by many countries in continental Europe.

Mr Kenneth Clarke, Chancellor of the Exchequer, told reporters that future interest rate cuts were likely to be of a similar size to yesterday's 25 point cut.

There was some puzzlement about the timing of the move. The government said the announcement was timed to coincide with the release of its latest inflation report, but some observers queried whether the report shed any new light on the inflation outlook. The government, however, firmly resisted suggestions that the rate move was timed to obtain political advantage.

Mr Michael Portillo, chief secretary to the Treasury commented: "This has nothing to do with elections or tax rises. It has everything to do with wanting to have interest rates as low as they can be consistent with maintaining downward pressure on inflation."

One view is that the Bank would probably have liked to delay cuts for a while, but had its hand forced by events. One commentator noted "They probably recognised that if they didn't move now they might not be able to move at all."

Three factors in particular have lessened room for manoeuvre: the new trend in US interest rates; the prospect that the January inflation figures, to be released next week, may well show inflation rising and make presentation of a policy-easing difficult; and the fact that tax increases will soon be taking effect.

Mr Eddie George, governor of the Bank of England, told reporters that the decision had been taken last week at his monthly monetary meeting with the Chancellor, with the announcement timed to coincide with the release of yesterday's encouraging inflation report.

Another view heard in the market was that the size of the rate cut represented a compromise between the government's wish for a ½ per cent change and the Bank's desire to hold its fire for the time being. The Bank was said not to want to cut rates too much ahead of an upcoming gilts auction. The last auction was not particularly successful in attracting funds.

■ The D-Mark and other EMS currencies traded in fairly narrow ranges yesterday with the focus on sterling. Following Friday's increase in US rates, the German currency held up quite well against the dollar to close at DM1.7658, slightly lower than Monday's close of DM1.7630.

The Bundesbank continued its recent practice and set the weekly repo at a fixed 6 per cent rate with a 14-day maturity. There had earlier been speculation that it might set a lower rate, which would have indicated a willingness for rates to fall.

Dealers in Frankfurt said the Bundesbank was intervening in the market, buying D-Marks for dollars at around the DM1.7650 level. London dealers, however, said there was no evidence of the central bank's involvement in the market beyond its normal covert operations.

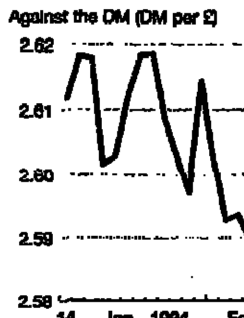
■ The outlook for the yen remains fairly uncertain even after the passage of a Y15.25trillion fiscal package. Although Japanese officials said it should boost GNP by 2.2 per cent over a year, comments from senior US officials made clear the US has no intention of easing pressure on Japan ahead of Friday's trade summit between President Clinton and Mr Morihiro Hosokawa, the Japanese prime minister in Washington.

Mr Lloyd Bentsen, the US Treasury secretary, described the package as a "modest step". The yen closed in London at Y106.900 to the dollar, marginally down on Monday's close of Y108.7050.

■ The Bank of England provided the UK money markets with £50m of late assistance yesterday. Earlier in the day the Bank provided the market with £1.024bn of liquidity compared to a revised forecast of a £1.1bn liquidity shortage. The outright and repurchase agreements with the market were conducted, following the rate cuts, at new rates of 5¼ per cent and 5$\frac{5}{32}$ respectively.

Sterling

Against the DM (DM per £)



Source: FT Graphite

■ **Pound in New York**

Feb 8	—Latest—	— Prev. close —
£ spot	1.4720	1.4815
1 mth	1.4698	1.4791
3 mth	1.4660	1.4746
1 yr	1.4563	1.4631

POUND SPOT FORWARD AGAINST THE POUND

Feb 8		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	18.2355	-0.114	274 - 435	18.3972	18.2075	18.2317	0.2	18.2261	0.2	-	-	112.7
Belgium	(BFr)	53.5136	-0.3115	861 - 410	53.9636	53.4061	53.5686	-1.2	53.6936	-1.3	54.0386	-1.0	113.3
Denmark	(DKr)	10.0787	-0.0528	748 - 826	10.1521	10.0591	10.0868	-1.0	10.1043	-1.0	10.1552	-0.6	114.0
Finland	(FM)	8.3045	-0.0433	952 - 138	8.3891	8.2798	-	-	-	-	-	-	81.7
France	(FFr)	8.8013	-0.0467	970 - 056	8.8744	8.7763	8.809	-1.0	8.8248	-1.1	8.8484	-0.5	107.3
Germany	(DM)	2.5956	-0.0155	946 - 966	2.6171	2.5891	2.5974	-0.8	2.6002	-0.7	2.6023	-0.3	121.2
Greece	(Dr)	373.221	-2.077	838 - 603	376.040	372.629	-	-	-	-	-	-	-
Ireland	(I£)	1.0429	-0.0056	417 - 441	1.0485	1.0399	1.0434	-0.6	1.0446	-0.7	1.0475	-0.4	103.3
Italy	(L)	2499.65	-17.03	832 - 098	2523.23	2496.47	2506.05	-3.1	2519.95	-3.2	2568.4	-2.6	76.7
Luxembourg	(LFr)	53.5136	-0.3115	861 - 410	53.9636	53.4061	53.5686	-1.2	53.6936	-1.3	54.0386	-1.0	113.3
Netherlands	(Fl)	2.9098	-0.012	083 - 112	2.9297	2.9010	2.9105	-0.3	2.9106	-0.1	2.9041	0.2	117.3
Norway	(NKr)	11.1474	-0.0486	425 - 522	11.2437	11.0706	11.1444	0.3	11.1367	0.4	11.1459	0.0	84.4
Portugal	(Es)	260.822	-1.532	413 - 831	262.841	260.101	261.812	-4.6	263.747	-4.8	-	-	-
Spain	(Pta)	210.130	-0.801	006 - 253	211.473	209.183	210.76	-3.6	211.96	-3.5	216.285	-2.9	84.9
Sweden	(SKr)	11.8307	+0.01	223 - 390	11.8792	11.7469	11.8517	-2.1	11.8917	-2.1	12.0247	-1.6	77.2
Switzerland	(SFr)	2.1786	-0.0028	775 - 797	2.1826	2.1678	2.177	0.9	2.1731	1.0	2.1523	1.2	117.4
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	81.5
Ecu	-	1.3345	-0.0061	336 - 364	1.3433	1.3310	1.3359	-1.3	1.3384	-1.2	1.3426	-0.6	-
SDR†	-	0.928448	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.4677	-0.0112	672 - 681	1.4848	1.4645	-	-	-	-	-	-	-
Brazil	(Cr)	754.445	+8.355	258 - 632	758.000	745.000	-	-	-	-	-	-	-
Canada	(C$)	1.9735	-0.0131	726 - 743	1.9870	1.9697	1.9712	1.4	1.9669	1.3	1.9557	0.9	90.5
Mexico	(New Peso)	4.5650	-0.0337	624 - 675	4.6157	4.5565	-	-	-	-	-	-	-
USA	($)	1.4700	-0.0111	696 - 703	1.4875	1.4670	1.4678	1.8	1.4637	1.7	1.4535	1.1	67.7
Pacific/Middle East/Africa													
Australia	(A$)	2.0460	-0.0256	448 - 472	2.0793	2.0437	2.0445	0.9	2.0422	0.8	2.0402	0.3	-
Hong Kong	(HK$)	11.3885	-0.0623	843 - 926	11.5224	11.3619	11.3666	2.3	11.3324	2.0	11.2323	1.4	-
India	(Rs)	46.1124	-0.3426	977 - 270	46.6590	46.0230	-	-	-	-	-	-	-
Japan	(Y)	160.078	-0.92	966 - 189	162.080	159.420	159.713	2.7	158.913	2.9	155.448	2.9	181.8
Malaysia	(M$)	4.0582	-0.0384	565 - 599	4.1090	4.0504	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.5545	-0.0332	523 - 566	2.5937	2.5522	2.5574	-1.4	2.5617	-1.1	2.5703	-0.6	-
Philippines	(Peso)	40.5707	-0.3064	670 - 743	40.8743	40.2670	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.5126	-0.0419	110 - 142	5.5784	5.5018	-	-	-	-	-	-	-
Singapore	(S$)	2.3350	-0.0199	337 - 363	2.3623	2.3290	-	-	-	-	-	-	-
S Africa (Com.)	(R)	5.0526	-0.034	503 - 549	5.1058	5.0435	-	-	-	-	-	-	-
S Africa (Fin.)	(R)	6.5670	-0.0089	581 - 759	6.6537	6.5581	-	-	-	-	-	-	-
South Korea	(Won)	1192.21	-6.33	185 - 256	1206.36	1189.86	-	-	-	-	-	-	-
Taiwan	(T$)	38.8655	-0.2713	415 - 894	39.3000	38.8000	-	-	-	-	-	-	-
Thailand	(Bt)	37.3956	-0.2973	718 - 191	37.8270	37.3350	-	-	-	-	-	-	-

†SDR rate for Feb.7. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1985 = 100.Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Feb 8		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P Morgan index
Europe													
Austria	(Sch)	12.4055	+0.016	030 - 080	12.4266	12.3555	12.4256	-1.9	12.4607	-1.8	12.5275	-1.0	102.2
Belgium	(BFr)	36.4050	+0.0825	950 - 150	36.4450	36.2600	36.495	-3.0	36.685	-3.1	37.175	-2.1	103.0
Denmark	(DKr)	6.8565	+0.0157	555 - 575	6.8681	6.8181	6.874	-3.1	6.904	-2.8	6.9725	-1.7	103.0
Finland	(FM)	5.6495	+0.0131	445 - 545	5.6616	5.6200	5.6542	-1.0	5.664	-1.0	5.697	-0.8	76.4
France	(FFr)	5.9875	+0.0134	860 - 890	5.9905	5.9590	6.0016	-2.8	6.0288	-2.8	6.0875	-1.7	103.7
Germany	(D)	1.7658	+0.0028	655 - 660	1.7687	1.7566	1.7696	-2.5	1.7762	-2.4	1.7892	-1.3	103.0
Greece	(Dr)	253.900	+0.5	700 - 100	254.100	252.650	256.9	-14.2	263.9	-15.6	293.4	-15.6	71.1
Ireland	(I£)	1.4095	-0.0033	082 - 108	1.4195	1.4082	1.4064	2.8	1.4006	2.6	1.3845	1.8	-
Italy	(L)	1700.50	+1.25	000 - 100	1703.25	1694.75	1707.25	-4.8	1721.3	-4.9	1768.6	-3.9	77.3
Luxembourg	(LFr)	36.4050	+0.0825	950 - 150	36.4450	36.2600	36.495	-3.0	36.685	-3.1	37.175	-2.1	103.0
Netherlands	(Fl)	1.9795	+0.0067	790 - 800	1.9800	1.9680	1.9827	-2.0	1.9881	-1.7	1.9967	-0.9	102.7
Norway	(NKr)	7.5835	+0.024	820 - 850	7.5857	7.5335	7.5925	-1.4	7.612	-1.5	7.6545	-0.9	94.3
Portugal	(Es)	177.300	+0.295	200 - 400	177.400	176.550	178.195	-6.1	180.02	-6.1	187	-5.5	94.0
Spain	(Pta)	142.950	+0.53	900 - 000	143.000	142.150	143.58	-5.3	144.8	-5.2	148.7	-4.0	80.4
Sweden	(SKr)	8.0484	+0.0671	446 - 521	8.0521	7.9576	8.0742	-3.8	8.1229	-3.7	8.2674	-2.7	83.0
Switzerland	(SFr)	1.4821	+0.0092	817 - 825	1.4830	1.4657	1.483	-0.8	1.4844	-0.6	1.4799	0.2	104.5
UK	(£)	1.4700	-0.0111	696 - 703	1.4875	1.4670	1.4678	1.8	1.4637	1.7	1.4535	1.1	91.0
Ecu	-	1.1015	-0.0033	010 - 020	1.1077	1.1010	1.0989	2.9	1.0937	2.8	1.0832	1.7	-
SDR†	-	1.37596	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9985	-0.0001	984 - 985	0.9985	0.9984	-	-	-	-	-	-	-
Brazil	(Cr)	513.245	+9.487	240 - 250	513.255	513.240	-	-	-	-	-	-	-
Canada	(C$)	1.3426	+0.0013	423 - 428	1.3457	1.3416	1.343	-0.4	1.3439	-0.4	1.3456	-0.2	86.7
Mexico	(New Peso)	3.1055	+0.0005	045 - 065	3.1065	3.1045	3.1071	-0.6	3.1099	-0.6	3.1206	-0.5	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	102.5
Pacific/Middle East/Africa													
Australia	(A$)	1.3919	-0.0068	914 - 924	1.3996	1.3895	1.3929	-0.9	1.3958	-1.1	1.4033	-0.8	89.4
Hong Kong	(HK$)	7.7475	+0.016	465 - 485	7.7540	7.7315	7.749	-0.2	7.7515	-0.2	7.7625	-0.2	-
India	(Rs)	31.3700	+0.0037	675 - 725	31.3725	31.3675	31.435	-2.5	31.57	-2.6	-	-	-
Japan	(Y)	108.900	+0.195	850 - 950	108.950	108.340	108.805	1.0	108.555	1.3	106.95	1.8	143.3
Malaysia	(M$)	2.7608	-0.0052	603 - 613	2.7675	2.7580	2.7543	2.8	2.7533	1.1	2.7758	-0.5	-
New Zealand	(NZ$)	1.7378	-0.0094	367 - 388	1.7467	1.7358	1.7394	-1.1	1.7439	-1.4	1.7581	-1.2	-
Philippines	(Peso)	27.6000	-	000 - 000	27.8000	27.4000	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7502	-0.0002	500 - 504	3.7504	3.7500	3.7526	-0.8	3.7569	-0.7	3.7767	-0.7	-
Singapore	(S$)	1.5885	-0.0015	880 - 890	1.5909	1.5855	1.5874	0.9	1.5852	0.8	1.5975	-0.6	-
S Africa (Com.)	(R)	3.4373	+0.0028	365 - 380	3.4400	3.4320	3.4543	-5.9	3.4833	-5.4	3.5906	-4.5	-
S Africa (Fin.)	(R)	4.4675	+0.0275	625 - 725	4.4800	4.4550	4.4985	-8.3	4.5575	-8.1	-	-	-
South Korea	(Won)	811.050	+1.8	000 - 100	811.300	810.000	814.05	-4.4	817.55	-3.2	836.05	-3.1	-
Taiwan	(T$)	26.4400	+0.015	300 - 500	26.4500	26.4200	26.5425	-4.7	26.69	-3.8	-	-	-
Thailand	(Bt)	25.4400	-0.01	300 - 500	25.4500	25.4300	25.61	-3.3	25.65	-3.3	25.79	-1.4	-

†SDR rate for Feb.7. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan indices shown for Feb.7. Base average 1990=100

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Feb 8		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.84	16.45	4.851	1.949	4672	5.438	20.84	487.0	392.6	22.11	4.072	1.869	3.689	2.747	299.2	2.495
Denmark	(DKr)	53.09	10	8.731	2.575	1.035	2480	2.887	11.06	258.5	208.4	11.74	2.162	0.992	1.958	1.458	158.8	1.324
France	(FFr)	60.80	11.45	10	2.950	1.185	2841	3.306	12.67	296.1	238.7	13.44	2.476	1.136	2.243	1.670	181.9	1.517
Germany	(DM)	20.61	3.883	3.390	1	0.402	963.0	1.121	4.295	100.4	80.93	4.557	0.839	0.385	0.760	0.566	61.67	0.514
Ireland	(I£)	51.30	9.664	8.438	2.489	1	2397	2.790	10.69	249.9	201.4	11.34	2.089	0.959	1.893	1.409	153.5	1.280
Italy	(L)	2.140	0.403	0.352	0.104	0.042	100.	0.116	0.446	10.42	8.404	0.473	0.087	0.040	0.079	0.059	6.404	0.053
Netherlands	(Fl)	18.39	3.464	3.024	0.892	0.358	859.1	1	3.832	89.55	72.20	4.065	0.749	0.344	0.678	0.505	55.02	0.459
Norway	(NKr)	47.99	9.040	7.893	2.328	0.935	2242	2.610	10	233.7	188.4	10.61	1.954	0.897	1.770	1.318	143.6	1.197
Portugal	(Es)	20.53	3.868	3.377	0.996	0.400	959.3	1.117	4.279	100.	80.62	4.540	0.836	0.384	0.757	0.564	61.44	0.512
Spain	(Pta)	25.47	4.798	4.189	1.236	0.496	1190	1.385	5.307	124.0	100.	5.631	1.037	0.475	0.940	0.700	76.20	0.635
Sweden	(SKr)	45.23	8.521	7.440	2.194	0.882	2113	2.460	9.425	220.3	177.6	10	1.842	0.845	1.669	1.243	135.3	1.128
Switzerland	(SFr)	24.56	4.626	4.039	1.191	0.479	1147	1.335	5.117	119.6	96.42	5.429	1	0.459	0.906	0.675	73.47	0.613
UK	(£)	53.51	10.08	8.801	2.596	1.043	2500	2.910	11.15	260.6	210.1	11.83	2.179	1	1.974	1.470	160.1	1.335
Canada	(C$)	27.11	5.106	4.458	1.315	0.528	1266	1.474	5.648	132.0	106.4	5.993	1.104	0.507	1	0.745	81.10	0.676
US	($)	36.40	6.857	5.987	1.766	0.710	1701	1.980	7.585	177.3	142.9	8.048	1.482	0.680	1.343	1	108.9	0.908
Japan	(Y)	334.2	62.96	54.97	16.21	6.515	15615	18.18	69.64	1628	1312	73.89	13.61	6.246	12.33	9.182	1000.	8.339
Ecu		40.08	7.551	6.593	1.945	0.781	1873	2.180	8.352	195.2	157.4	8.861	1.632	0.749	1.479	1.101	119.9	1

Yen per 1,000; Danish Kroner, French Franc, Norwegian Kroner and Swedish Kronor per 10; Belgian Franc, Escudo, Lira and Peseta per 100.

■ **D-MARK FUTURES** (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.5668	0.5659	-0.0010	0.5676	0.5655	57,492	149,727
Jun	0.5634	0.5630	-0.0010	0.5634	0.5629	483	9,575
Sep	-	0.5615	-	-	0.5615	24	335

■ **JAPANESE YEN FUTURES** (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	0.9214	0.9210	+0.0005	0.9240	0.9203	32,911	80,956
Jun	0.9244	0.9247	+0.0006	0.9267	0.9240	114	6,891
Sep	-	0.9279	+0.0042	-	-	1	690

EMS EUROPEAN CURRENCY UNIT RATES

Feb 8	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Ireland	0.808628	0.781354	+0.001492	-3.37	6.50	23
Netherlands	2.19672	2.17977	-0.0021	-0.77	2.74	-
Belgium	40.2123	40.1719	+0.0377	-0.10	2.05	1
Germany	1.94964	1.94575	-0.00202	-0.20	2.15	-
France	6.53883	6.59909	-0.00448	0.92	1.01	-8
Portugal	192.854	195.315	-0.06	1.28	0.66	-9
Denmark	7.43679	7.55594	-0.00404	1.60	0.34	-11
Spain	154.250	157.251	-0.133	1.95	0.00	-14
NON ERM MEMBERS						
Greece	264.513	279.620	-0.299	5.71	-3.56	-
Italy	1793.19	1877.52	-0.61	4.70	-2.63	-
UK	0.786749	0.750161	+0.003511	-4.65	6.92	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

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WORLD STOCK MARKETS

EUROPE

AUSTRIA (Feb 8 / Sch)

BELGIUM/LUXEMBOURG (Feb 8 / Frs.)

DENMARK (Feb 8 / Kr)

FINLAND (Feb 8 / Mka)

FRANCE (Feb 8 / Frs.)

GERMANY (Feb 8 / Dm.)

ITALY (Feb 8 / Lire)

NETHERLANDS (Feb 8 / Fls.)

NORWAY (Feb 8 / Kroner)

SPAIN (Feb 8 / Pta)

SWEDEN (Feb 8 / Kronor)

SWITZERLAND (Feb 8 / Frs.)

PACIFIC

JAPAN (Feb 8 / Yen)

HONG KONG (Feb 8 / H.K.$)

MALAYSIA (Feb 8 / MYR)

SINGAPORE (Feb 8 / S$)

AUSTRALIA (Feb 8 / Aust$)

NORTH AMERICA

CANADA

TORONTO (Feb 8 / Can $)

4 pm close

MONTREAL (Feb 8 / Can $)

4 pm close

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are 1993-94, except Toronto & Montreal (daily). ♦ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

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AFRICA

SOUTH AFRICA (Feb 8 / Rand)

■ TOKYO - MOST ACTIVE STOCKS: Tuesday, February 8, 1994

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Fujitsu	23.1m	1,070	+20	NEC Corp	8.1m	1,070	+10
Furukawa Elec	10.8m	707	+27	Oki Elec Ind	8.0m	661	+5
Toshiba Corp	10.4m	738	+13	Nippon Steel	7.9m	352	+9
Nitsuko Corp	9.5m	1,600	+120	Sumitomo Elec	7.7m	1,660	+40
Itochu	8.3m	695	+15	Hitachi	6.8m	898	+21

INDICES

	Feb 8	Feb 7	Feb 4	1993/4 High		1993/4 Low	
Argentina							
General (29/12/77)	(u)	23818.7	24924.9	24924.90	4/2/94	12187.66	8/3/93
Australia							
All Ordinaries(1/1/80)	2305.4	2281.1	2332.8	2340.60	3/2/94	1495.06	13/1/93
All Mining(1/1/80)	1115.6	1104.7	1134.4	1136.10	3/2/94	584.70	13/1/93
Austria							
Credit Aktien(30/12/84)	458.22	452.80	457.07	460.86	2/2/94	380.28	14/1/93
Traded Index(2/1/91)	1203.04	1192.84	1206.07	1222.25	1/2/94	712.06	15/1/93
Belgium							
BEL20 (1/1/91)	1535.60	1527.11	1538.75	1535.80	8/2/94	1125.45	4/1/93
Brazil							
Bovespa (29/12/83)	(u)	84873.0	82128.0	84873.00	7/2/94	714.72	4/1/93
Canada							
Metals Minls♦(1975)	(u)	3760.44	3703.35	3824.93	1/2/94	2743.31	21/1/93
Composite♦ (1975)	(u)	4448.71	4447.20	4591.30	1/2/94	3275.80	21/1/93
Portfolio§§ (4/1/83)	(u)	2107.92	2100.19	2182.89	1/2/94	1720.87	21/1/93
Chile							
IPGA Gen (31/12/80)	(u)	4797.9	4867.8	4867.80	4/2/94	2612.59	10/5/93
Denmark							
CopenhagenSE(3/1/83)	409.34	408.73	410.22	415.79	2/2/94	281.80	4/1/93
Finland							
HEX General(28/12/90)	1943.6	1899.3	1972.0	1972.00	4/2/94	843.10	22/1/93
France							
SBF 250 (31/12/90)	1554.55	1545.16	1572.68	1585.20	2/2/94	1114.19	28/1/93
CAC 40(31/12/87)	2299.85	2287.06	2329.17	2355.93	2/2/94	1772.21	29/1/93
Germany							
FAZ Aktien(31/12/58)	814.14	800.65	819.58	855.67	4/1/94	598.82	14/1/93
Commerzbank(1/12/53)	2331.3	2292.8	2345.7	2459.80	4/1/94	1694.20	14/1/93
DAX (30/12/87)‡	2107.21	2079.4	2138.25	2267.98	3/1/94	1516.50	13/1/93
Greece							
Athens SE(31/12/80)	1088.68	1073.43	1114.91	1194.98	18/1/94	667.72	5/1/93
Hong Kong							
Hang Seng(31/7/64)	11464.16	11414.27	12157.57	12201.09	4/1/94	5437.80	4/1/93
India							
BSE Sens.(1979)	4182.0	4144.4	3917.5	4182.00	8/2/94	2100.67	23/4/93
Indonesia							
Jakarta Comp.(10/8/82)	587.97	594.12	601.83	612.89	5/1/94	273.31	5/1/93
Ireland							
ISEQ Overall(4/1/88)	2023.32	1977.03	2047.01	2082.18	20/1/94	1191.19	11/1/93
Italy							
Banca Comm Ital (1972)	677.75	664.88	671.70	677.75	8/2/94	448.33	6/1/93
MIB General (4/1/94)	1083.0	1062.0	1073.0	1083.00	8/2/94	944.00	10/1/94
Japan							
Nikkei 225 (16/5/49)	20251.23	20014.40	20301.43	21148.11	13/9/93	16078.71	29/11/93
Nikkei 300 (1/10/82)	297.69	295.21	297.68	308.84	10/11/93	249.84	29/11/93
Topix (4/1/68)	1616.70	1601.44	1614.80	1658.67	3/9/93	1250.06	25/1/93
2nd Section (4/1/68)	2168.69	2149.03	2158.75	2384.97	7/6/93	1651.72	28/1/93
Malaysia							
KLSE Comp.(4/4/86)	1108.72	1094.02	1147.32	1314.46	5/1/94	614.28	13/1/93
Mexico							
IPC (Nov 1978)	(u)	2824.40	2822.98	2824.40	7/2/94	1504.15	25/2/93
Netherland							
CBS TtlRtnGen(End 83)	451.4	444.1	452.3	454.90	31/1/94	295.70	4/1/93
CBS All Shr (End 83)	292.6	287.8	293.1	294.80	31/1/94	198.60	13/1/93
New Zealand							
Cap. 40 (1/7/86)	2373.69	2365.50	2413.24	2439.64	3/2/94	1495.37	21/1/93
Norway							
Oslo SE(Ind)(2/1/83)	1198.42	1174.23	1204.17	1204.17	4/2/94	689.93	27/1/93
Philippines							
Manila Comp (2/1/85)	2952.85	2890.94	2965.38	3308.37	4/1/94	1270.88	4/1/93
Portugal							
BTA (1977)	3113.1	3101.0	3142.4	3142.40	4/2/94	1908.20	14/1/93
Singapore							
SES All-S'pore(2/4/75)	603.25	597.01	612.38	641.81	4/1/94	394.10	13/1/93
South Africa							
JSE Gold (28/9/78)	1885.0♥	1943.0	2015.0	2331.00	4/1/94	775.00	5/1/93
JSE Ind. (28/9/78)	5731.0♥	5739.0	5822.0	5822.00	4/2/94	4333.00	19/4/93
South Korea							
KoreaCmpEx(4/1/80)**	923.00	914.88	984.42	974.28	2/2/94	695.93	8/3/93
Spain							
Madrid SE (30/12/85)	353.98	349.17	356.47	358.31	31/1/94	215.89	4/1/93
Sweden							
AffarsvardsGen (1/2/37)	1573.8	1550.3	1594.0	1603.90	31/1/94	879.18	28/1/93
Switzerland							
Swiss Bk Ind (31/12/58)	1390.12	1380.98	1410.80	1423.34	31/1/94	904.80	11/1/93
SBC General (1/4/87)	1070.52	1067.29	1091.83	1093.29	31/1/94	678.70	11/1/93
Taiwan							
WeightedPr.(30/6/66)**	(c)	(c)	6258.33	6454.52	6/1/94	3098.43	9/1/93
Thailand							
Bangkok SET (30/4/75)	1365.73	1344.81	1443.81	1753.73	4/1/94	818.84	1/6/93
Turkey							
Istanbul Cmp.(Jan 1986)	17081.1	18212.3	17894.8	20883.60	13/1/94	3855.53	1/1/93
WORLD							
MS Capital Int (1/1/70)$	(u)	619.7*	631.1	641.80	1/2/94	498.80	13/1/93
CROSS-BORDER							
Eurotrack 100(26/10/90)	1512.37	1495.54	1529.77	1540.18	31/1/94	1063.02	13/1/93
Euro Top-100 (26/6/90)	1287.88	1276.71	1301.34	1311.01	2/2/94	862.73	13/1/93
JCapsEmgs (31/12/88)	(u)	366.19	384.09	395.18	5/1/94	186.92	4/1/93
Barings Emerg.(7/1/92)	(u)	179.72	181.80	182.16	2/2/94	89.81	4/2/93

** Sat Feb 5 : Taiwan Weighted Price 6294.13; Korea Comp Ex 942.60. Base values of all Indices are 100 except Australia All Ordinary and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX - all 1,000; JSE Gold - 255.7; JSE 28 Industrials - 264.3; NYSE All Common - 50 and Standard and Poor's - 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours Index: Feb 8 - 2099.57 +4.46.

■ CAC-40 STOCK INDEX FUTURES (MATIF)

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Feb	2307.0	2309.0	+8.0	2329.0	2302.0	24,339	21,137
Mar	2320.5	2320.5	+8.0	2340.0	2316.0	3,016	45,976
Jun	2318.5	2318.5	+8.0	2332.0	2318.5	407	2,512

Open interest figures for previous day.

US INDICES

Dow Jones	Feb 7	Feb 4	Feb 3	1993/4 High	1993/4 Low	Since compilation High	Since compilation Low
Industrials	3906.32	3871.42	3967.66	3978.36 (31/1/94)	3241.95 (20/1/93)	3978.36 (31/1/94)	41.22 (2/7/32)
Home Bonds	104.80	105.04	105.21	109.77 (18/10/93)	103.49 (11/1/93)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	1829.85	1826.32	1852.58	1862.29 (2/2/94)	1453.84 (4/1/93)	1862.29 (2/2/94)	12.32 (8/7/32)
Utilities	219.35	220.21	224.23	256.46 (31/8/93)	217.11 (24/1/94)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 3923.48 (3979.76) Low 3840.75 (3957.83) (Theoretical♦)
Day's high 3910.28 (3966.51) Low 3858.32 (3870.01) (Actual♦)

Standard and Poors	Feb 7	Feb 4	Feb 3	1993/4 High	1993/4 Low	Since compilation High	Since compilation Low
Composite ‡	471.76	469.81	480.71	482.00 (2/2/94)	429.05 (8/1/93)	482.00 (2/2/94)	4.40 (1/6/32)
Industrials	550.23	547.56	560.00	560.85 (2/2/94)	496.48 (26/4/93)	560.59 (2/2/94)	3.62 (21/6/82)
Financial	44.51	44.45	45.76	48.40 (28/9/93)	39.89 (8/1/93)	48.40 (28/9/93)	8.64 (1/10/74)
NYSE Comp.	262.01	261.21	267.18	267.71 (2/2/94)	236.21 (8/1/93)	267.71 (2/2/94)	4.46 (25/4/42)
Amex Mkt Val	476.84	478.29	487.18	487.89 (2/2/94)	395.84 (8/1/93)	487.89 (2/2/94)	29.31 (9/12/73)
NASDAQ Comp	779.21	777.28	787.79	800.47 (31/1/94)	645.87 (26/4/93)	800.47 (31/1/94)	54.87 (31/10/72)

■ RATIOS

	Feb 4	Jan 28	Jan 21	Year ago
Dow Jones Ind. Div. Yield	2.62	2.57	2.59	3.01
	Feb 2	Jan 26	Jan 19	Year ago
S & P Ind. Div. yield	2.28	2.35	2.34	2.46
S & P Ind. P/E ratio	28.51	27.99	28.13	27.44

■ STANDARD AND POORS 500 INDEX FUTURES $500 times index

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Mar	472.20	472.10	+0.05	472.95	471.95	81,974	183,210
Jun	-	473.20	+3.20	-	-	987	6,474
Sep	-	474.70	+3.10	-	-	8	913

Open interest figures are for previous day.

■ NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Close price	Change on day
Telefonos	4,123,400	74¼	+1⅛
IBM	4,116,000	54½	+2¼
Gen. Motors	4,061,200	63	+1⅜
Citicorp	3,757,600	41	+¾
RJR Nabisco	3,451,600	7⅜	-⅛
Merck	3,435,400	35⅜	—
Chrysler	3,424,700	61¾	+¼
Amer Express	3,312,700	30⅜	-⅛
GTE Corp	2,886,400	33⅛	-⅛
Glaxo Hlds	2,839,800	19¼	+⅛

■ TRADING ACTIVITY

● Volume (million)

	Feb 7	Feb 4	Feb 3
New York SE	346.779	375.863	318.004
Amex	19.043	23.805	20.541
NASDAQ	370.024	376.035	331.623
NYSE			
Issues Traded	2,737	2,744	2,746
Rises	1,022	295	919
Falls	1,175	2,042	1,182
Unchanged	540	407	645
New Highs	18	97	137
New Lows	63	50	19

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

4 pm close February 8

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1993/94 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
16 5/8	11 1/2	AAR	0.48	3.0	25	167	15 7/8	15 1/2	15 3/4	+1/4
29 3/8	12 3/4	A L Labs A	0.18	1.1	35	127	15 3/4	15 3/8	15 3/4	+1/4
67 1/4	54 5/8	AMP	1.68	2.7	21	1852	62	61 1/8	62	+5/8
72 3/4	55 1/2	AMR			33	3939	69 1/2	68 7/8	69 1/4	+1/4
5	1 3/4	ARX			18	186	4 5/8	4 3/8	4 5/8	+1/8
56 1/8	29 7/8	ASA	2.00	4.0	33	1211	50	49	49 7/8	+1 1/8
30 3/4	22 5/8	Abbtt L	0.68	2.3	17	9688	29 1/2	29	29 1/4	-1/4
13	8 1/4	Abitibi Pr	0.50	4.0	8	29	12 5/8	12 5/8	12 5/8	+1/8
15 5/8	8 1/4	Acpincain			23	3	12 3/4	12 3/4	12 3/4	+1/4
36	25 1/2	ACE Ltd	0.40	1.5	4	3040	28	27 1/4	27 3/8	-3/8
12 5/8	10 3/4	ACM Gvt In x	1.09	8.8		156	12 3/8	12 1/4	12 3/8	+1/8
10 1/8	9 1/8	ACM GvOpp x	0.80	8.1		53	10	9 7/8	9 7/8	
10 5/8	8 3/4	ACM Gvt Sp x	0.96	9.5		323	10 1/4	10 1/8	10 1/8	-1/8
12 1/4	10 1/2	ACM Gvt Se x	1.09	9.3		792	11 3/4	11 5/8	11 3/4	
12 1/4	9 5/8	ACM Mgn x	1.08	9.4		193	11 1/2	11 3/8	11 1/2	+1/8
9 3/8	8 5/8	ACM Managd x	0.72	8.0		21	9	9	9	
12 3/8	7 3/4	AcmeClv	0.44	4.5	12	10	9 7/8	9 3/4	9 7/8	
11 3/8	6 3/8	Acme Elect			36	136	8 1/2	8 1/8	8 1/2	+1/4
27 5/8	18 3/8	Acuda	0.44	1.9	13	15	23 1/4	23 1/4	23 1/4	
9 1/4	6 5/8	Activa	0.36	4.2	17	631	8 5/8	8 1/8	8 1/2	+3/8
16	10 3/8	Acuson			51	249	11 1/2	11 3/8	11 3/8	
21 3/4	17 5/8	Adams Expr	0.39	2.2	0	294	18	17 7/8	17 7/8	-1/4
88 1/4	45 1/2	Ad Micro	3.00	5.7		58	52 3/8	50 3/4	52 1/4	+2
32 3/4	16 3/4	AdvMic	3.00	13.6	9	12489	22 1/8	20 3/8	22	+1 5/8
8 1/8	5 1/2	Advest Grp	0.16	2.4	10	90	6 7/8	6 5/8	6 3/4	
24 3/4	14 3/4	Advo Inc	0.08	0.4	120	191	18	18	18	-1/4
58 1/2	41 1/8	Aegon ADR	1.23	2.3	11	33	54 3/8	53 5/8	53 7/8	-1/4
66 1/4	43 3/8	AetnaL	2.76	4.5	36	2740	62 1/4	60 3/4	61 3/4	+7/8
34	24 3/4	Aflac	0.40	1.4	13	1794	28 3/8	27 5/8	28 3/8	+1
32 1/8	16 3/4	Ahmnson	0.88	5.0	8	1406	17 7/8	17 5/8	17 3/4	-1/8
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

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NYSE COMPOSITE PRICES

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NASDAQ NATIONAL MARKET

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AMEX COMPOSITE PRICES

4 pm close February 8

AMERICA

Lower bond prices put brake on US stocks

Wall Street

US stock indices showed little change yesterday morning amid lingering concern over higher interest rates and a further softening of bond prices, *writes Frank McCurty in New York.*

By 1 pm, the Dow Jones Industrial Average was 3.37 ahead at 3,909.69, while the more broadly based Standard & Poor's 500 ebbed 0.73 to 471.03. In the secondary markets, the American SE composite edged 0.14 down to 476.70, but the Nasdaq composite added 1.56 to 780.76.

Volume on the NYSE was heavy, with 192m shares traded by 1 pm. Advancing issues led declines, 1,073 to 926.

Overnight rallies on many foreign stock markets provided a positive tone for Wall Street, which was already cheered by Monday's rebound from a 96-point rout in the final session of last week. Stocks climbed about 10 points within minutes of the opening bell.

However, in the absence of any major economic news, share prices could not sustain their forward momentum. News of a 4.2 per cent gain in fourth-quarter non-farm productivity barely raised a ripple.

Instead, investors were distracted by the US Treasury market, which continued to lose ground in the wake of the Federal Reserve's move to tighten short-term interest rates on Friday. The benchmark 30-year issue was trading *down 11/32 at 97 11/32 by midday,* amid additional concern over the issuance of new supply by the Treasury.

Among the blue chips, heavy gains by some stocks were nearly balanced with hefty losses by others. Caterpillar powered $2 ahead to $106⅛, while General Motors shifted $1¼ higher to $64.

But Sears plummeted $2¼ to $48⅞ after the retailer disappointed investors with its fourth-quarter operating results.

By contrast, Allied Signal jumped $1⅛ to $77⅞ after posting fourth-quarter net earnings of 41 cents a share, against 32 cents a year earlier, and boosting its dividend by 16 per cent.

Alcoa, another Dow industrial, showed no signs of stumbling. It added a further $⅞ to $79¼ as investors followed through on Monday's announcement of deep production cuts. 3M climbed $1⅜ to $106⅝.

In pharmaceuticals, Pfizer was marked down $3 to $58⅝. The company warned of lower profits in the first quarter, following a sharp slowdown in sales growth in the final three months of last year. The bearish sentiment spilled over into other some drug stocks. Schering-Plough lost $2⅝ to $60.

Consumer products companies, which have stayed out of the limelight in recent weeks, resurfaced with moderate losses. Philip Morris shed $1 to $58⅞. Procter & Gamble was sharply lower as well, but recovered *to $57⅝, down $⅝.*

On the Nasdaq, America Online surged $3¼ to $74, after a $5⅞ gain the previous session. The company, which offers information services through home computers, announced a strategic alliance with NBC late on Monday. In other technology issues, Sierra On-Line jumped $2¼ to $22 on news of strong earnings, but Microsoft fell $2 to $78⅝.

Canada

Toronto reversed course at midday to trade mixed with a weaker bias as an earlier precious metals recovery ran out of steam and tobacco stocks were marked lower.

The TSE 300 composite index eased 6.60 to 4,442.11 at noon in volume of 46.2m shares. Advancing issues led declines 348 to 297, with 345 issues holding steady. Toronto's precious metals sector fell 73.42, or 0.7 per cent, to 10,363.34.

Brazil

São Paulo was 4.4 per cent ahead by midsession as investors awaited a congressional vote on a major element of the government's anti-inflation programme, which was expected either later yesterday or today. The Bovespa index was up 3,745 at 88,618 by 1 pm.

Congress is expected to vote on a measure creating a social welfare fund which would help to balance the 1994 budget.

Government struggles to control Seoul's advance

The rally looks set to continue, writes **John Burton**

Government intervention, helped by the three-day lunar new year's holiday that begins today, has temporarily halted a recent surge on the Seoul bourse. But analysts believe that the Finance Ministry will eventually have no more success in controlling the market than Canute had in stopping the waves.

The ministry has announced three sets of measures in the last three weeks to curb stock speculation, which has sent the general index climbing towards its record peak of 1,007, set on April 1, 1989. The result of the ministry's labours began to bear fruit a week ago when the index reached 974 and then went on a decline – although it rebounded yesterday, ending at 923, up 8 points.

The government has offered several economic reasons for cooling the market. It fears that the bull run could cause distortions in economic growth by diverting funds from industrial investments.

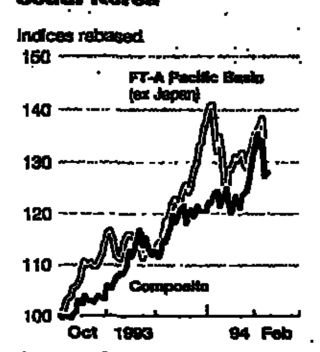
It has also expressed concern about inflationary pressure as investors start spending their newly acquired capital gains, which are not subject to taxation. Foreign capital flowing into the Seoul bourse – still considered undervalued by Asian standards – has heightened inflationary worries, since it would increase the money supply.

The measures also reflect the "back to basics" approach on economic issues favoured by the administration of President Kim Young-sam, who has preached that hard work rather than financial speculation should be the guiding principle of Koreans.

But the government only has itself to blame for the stock market's buoyancy. Its success in curbing inflation has depressed interest rates and, consequently, the bond market. An anti-corruption campaign has dampened speculation in the unofficial lending and property markets.

The government last year also sought to encourage the public to liquidate their anonymous bank accounts and transfer the funds to the stock market by offering to maintain its

South Korea



Source: FT Graphite

tax-free status for five years. The bourse has been riding on a wave of liquidity ever since, matched by expectations that corporate earnings will improve significantly this year.

The cooling-down measures include requiring institutional investors to make a 40 per cent deposit on purchase orders and individual investors 80 per cent. Financial institutions, which operate under close state supervision, are being required to sell shares and buy monetary stabilisation bonds instead. The amount of authorised new share issues is being raised to soak up excess liquidity. But they appear to have little long-term impact, at least on domestic investors. Stock deposits, a key indicator of potential buying power, remain high.

The measures, however, appear to be discouraging foreign investors since the deposit requirement makes share purchases cumbersome, or even illegal in the case of US institutional funds, the largest bloc of foreign investors in Seoul.

Some foreign brokers believe that is a deliberate goal of the policy. Foreigners are already barred from acquiring more than 10 per cent of a company's stock and the foreign quota was expected to be exhausted for almost all shares by the end of the month. A western broker said: "If nearly all Korean stocks had their foreign shareholding limits filled, that would have put increased pressure on the government to raise the shareholding ceiling. These measures have put off that day by forcing foreigners to halt or slow down buying."

The result is that there is renewed questioning among foreign securities houses about the government's commitment to financial liberalisation and its willingness to rid itself of its traditional desire to meddle in financial markets.

But other analysts argue that those doubts about state intentions may be misplaced. Recent efforts to liberalise foreign exchange rules are likely to encourage pent-up capital to flow out of the country, which will lessen worries about inflation and persuade the government to relax its grip on the market.

EUROPE

Rate cuts rewarded in Belgium, Norway

Rate cuts were rewarded in Brussels and Oslo, but bourses lost some of their early gains as Wall Street moved to marginal weakness in the American mid-morning, *writes Our Markets Staff.*

FRANKFURT's Dax index rose 27.81, or 1.3 per cent, on the session to 2,107.21, but most of this reflected Monday's post-bourse gains. Turnover fell from DM10.8bn to DM9.8bn.

The Ibis-indicated Dax closed the afternoon just 4.46 ahead at 2,099.57. "The only high we had today was in the jobless figures," mourned Mr Edgar Benischek, head of trading at Bank Julius Bär in Frankfurt.

Mr Benischek said that Mr Hans Tietmeyer, president of the Bundesbank, seemed determined that the D-Mark should not depreciate against the US dollar and that interest rate prospects were weakened accordingly.

Not enough companies were producing an improving picture at the moment, he said, although Degussa, which was an early cost cutter, came up with good results yesterday and saw its shares rise DM13 on the session, to DM467.

PARIS turnover slipped below the FFr5bn level as many investors decided to take a watching brief. The CAC-40 index closed 12.79 higher at 2,299.85, off the day's high of 2,318.00.

Roussel Uclaf, the pharmaceuticals group, rose FFr28 to FFr724 on better than expected 1993 results, assisted by good sales growth in the fourth quarter. Paribas recently recommended a continued underweight position in the sector, given that prices could come under greater pressure in the short term. It did recommend Roussel however, noting that its position will be enhanced further by restructuring.

Eurotunnel went in the opposite direction, down FFr1.85 to FFr50.15 after announcing that the May 8 opening of the passenger service could be delayed.

AMSTERDAM was lifted by activity, particularly from UK and US investors, among the heavily capitalised issues. The AEX index rose 8.11 or 1.9 per cent to 436.54.

Nedlloyd added 10 per cent on a positive profit forecast for 1994, the shares gaining Fl 7.00 to Fl 76.60. The group also said that it was launching a Fl 300m convertible bond which would be used to repay debt.

FT-SE Actuaries Share Indices

Feb 8								THE EUROPEAN SERIES
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1515.21	1519.19	1520.76	1521.27	1520.21	1517.86	1514.63	1512.37
FT-SE Eurotrack 200	1579.57	1583.80	1583.17	1585.84	1583.80	1580.77	1575.31	1574.88

	Feb 7	Feb 4	Feb 3	Feb 2	Feb 1
FT-SE Eurotrack 100	1495.54	1529.77	1527.17	1540.13	1532.83
FT-SE Eurotrack 200	1557.75	1592.27	1594.74	1607.10	1598.18

Base value 1000 (26/10/90); High/day: 100 - 1523.17; 200 - 1587.53 Low/day: 100 - 1511.53 200 - 1572.89

MILAN recovered on domestic and foreign buying, the Comit index rising 12.87 or 1.9 per cent to a year's high of 677.75.

Fiat companies benefited as investors, trying to rebuild positions, met a dearth of sellers. Fiat rose L173 or 3.6 per cent to L4,963 and Ifil added L336 or 5.4 per cent to L6,544 amid renewed speculation that it might sell all or part of its Rinascente stake. Rinascente gained L569 or 6 per cent to L10,047.

The banking sector continued to receive support from the success of the IMI privatisation and plans to force any group taking controlling blocks in privatised banks to launch a public offer. Credito Italiano rose L131 or 5.2 per cent to L2,691 and BCI L195 or 3.7 per cent to L5,486. IMI, making its debut on the bourse today, was quoted at L12,500-L13,000 on the grey market yesterday, compared with the offer price of L10,900.

ZURICH encountered late profit-taking and the SMI index finished 7.4 ahead at 3,097.2 after a high of 3,140.3.

Chemicals, however, held on to the best of their gains. Roche certificates adding SFr110 to SFr7,180 and Ciba registered SFr15 to SFr920.

Banks, recently firm, were out of favour: CS Holding dipped SFr9 to SFr730 and UBS bearers dipped SFr8 to SFr920.

Alusuisse put on SFr16 to SFr624 as it forecast improved 1994 profits.

MADRID closed off its highs, but the general index still rose 4.81 to 353.98 in active turnover of Pta49.5bn. Electrical utilities were the strong feature, after weakness in banks and construction on Monday.

BRUSSELS parlayed Monday's bank rate cut, and its relative strength that day, into a new record high, the Bel-20 index ending 8.49 higher at 1,535.60 with basket trading again strongly in evidence.

OSLO rose in anticipation of a rate cut which came after hours, the all-share index closing 14.63, or 2.2 per cent higher at 683.59. General optimism was also reported ahead of tomorrow's string of 1993 results. **HELSINKI** gained 2.3 per cent with banks and forestry in the lead, the Hex index closing 44.2 higher at 1,943.6.

DUBLIN rebounded after Monday's 3.4 per cent slide, as the market was encouraged by the interest rate developments in London. The ISEQ index added 46.29 or 2.3 per cent to 2,023.32.

ISTANBUL fell back more than 6 per cent as investors continued to transfer funds into money markets to take advantage of high interest rates. The composite index lost 1,131.16 to 17,081.15.

Written and edited by William Cochrane, John Pitt and Michael Morgan

ASIA PACIFIC

Nikkei gains 1% as hopes rise for tax plan

Tokyo

Investors were encouraged by Monday's rally on Wall Street and, in addition, by their anticipation of the government's economic package, *writes Emiko Terazono in Tokyo.*

Share prices gained ground in spite of active profit-taking by dealers and corporate investors in the afternoon session, the Nikkei average ending 236.83 ahead at 20,251.23 after an opening low for the day of 20,080.51, and high of 20,526.45.

Reports that the coalition was poised to agree on a Y6,000bn tax cut for the fiscal year to March 1995 spurred arbitrage buying in the morning, and the rebound in New York equities also helped investor confidence. The record economic stimulus package came after hours and, in London, the ISE/Nikkei 50 index rose 7.37 to 1,343.95.

In the domestic market, traders were encouraged by buying orders from institutional investors, who had been cautious until now. However, there was profit-taking in the afternoon as dealers adjusted positions ahead of the Hosokawa-Clinton talks on Friday, and the listing of the Nikkei 300 futures contracts on the Osaka stock exchange next Monday.

The Topix index of all first section stocks advanced 15.26 to 1,616.70. Volume totalled 600m shares, against Monday's 310m, as sell orders emerged around the 20,500 Nikkei level. Winners outnumbered losers by 824 to 210, with 140 issues unchanged.

Banks, which have been depressed recently on selling by corporate investors, bounced back. Industrial Bank of Japan rose Y120 to Y3,220 and Fuji Bank Y10 to Y2,230. Brokers were also stronger, with Nomura Securities ahead Y10 at Y2,270 and Nikko Securities gaining Y30 at Y1,320.

Telecommunications-related stocks were higher on the multi-media theme. Fujitsu, the day's most active issue, appreciated Y20 to Y1,070 and NEC put on Y10 at Y1,070. Companies in the mobile phone business were also bought. Itochu, a trading house, moved up Y15 to Y695 and Nitsuko Y120 to Y1,600.

Shipping lines, regarded as *laggards,* were bought. Navix Line improved Y13 to Y342 and Iino Kaium Y30 to Y650.

In Osaka, the OSE average added 320.19 at 22,021.11 in volume of 64.4m shares. Nintendo, the video game maker, rose Y330 to Y6,880.

Roundup

Most of the region's equity markets closed either side of a percentage point higher; none of Monday's big fallers came near to recouping their losses.

HONG KONG regained just 0.35 per cent after Monday's 6.1 per cent slide, the Hang Seng index finishing 39.89 better at 11,454.16 on late bargain hunting in blue chips.

Turnover declined from HK$9.67bn to HK$8.58bn. Properties and banks saw a recovery in sentiment; traders said the cut in the weighting of Hong Kong stocks by Nomura, the Japanese broker, had prompted some early follow-through selling which had subsided by late afternoon.

BANGKOK recovered some of Monday's 6.8 per cent fall, helped by activity in the banking sector. The SET index put on 20.92 at 1,365.73 in low turnover of Bt8.3bn, after Monday's Bt10.9bn. However, the market remained some 20 per cent down from its January 4 high of 1,753.

Bangkok Bank advanced Bt7 to Bt194, with most of the rise coming in the last few minutes of trading.

KUALA LUMPUR retrieved 14.70 of the previous day's 53.30 fall, the composite index ending at 1,108.72. Volume fell from 206m shares to 159.9m.

MANILA added a temporary freeze on oil price increases and the government's staving off of a strike threat by local labour groups to Wall Street's strength, and the composite index closed 61.91, or 2.1 per cent, higher at 2,952.85.

However, brokers said the rally was not convincing, since the oil price freeze was only a palliative.

BOMBAY kept itself in positive territory after Monday's near 6 per cent gain, although some profit-taking crept in towards the close. The BSE index rose 17.6 to 4,162.0.

AUSTRALIA gave the credit to New York and Tokyo as the All Ordinaries index recouped almost half of Monday's loss, gaining 24.3 at 2,305.4 in turnover of A$715.11m.

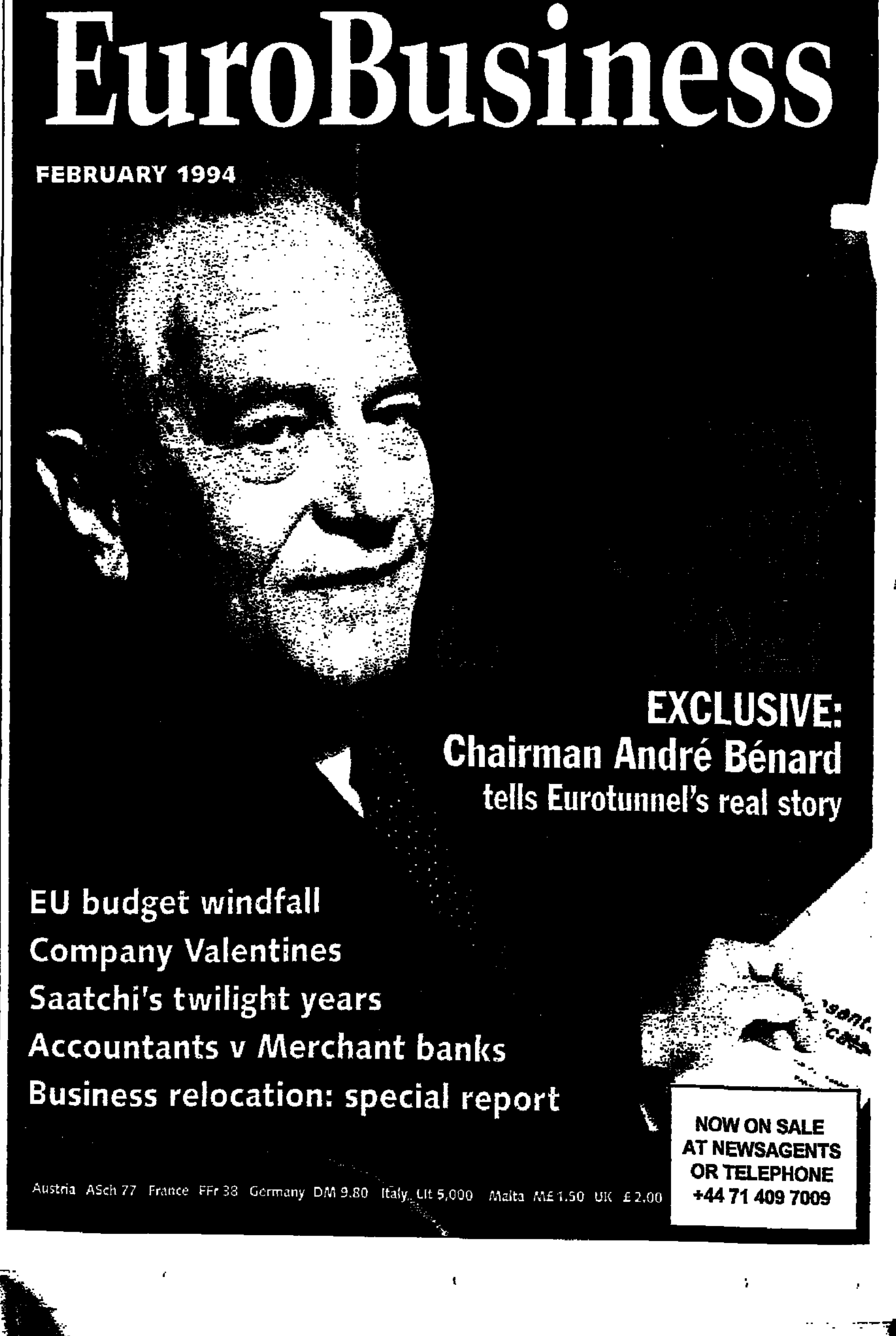
Mining house CRA moved ahead 38 cents to A$19.26, with analysts saying the agreement between its Hammersley Iron unit and Japanese Steel Mills for a 7.6 per cent iron ore price cut was around expectations, or a little better.

NEW ZEALAND dropped from a midday high of 2,399.02 to finish with the NZSE-40 index a net 8.19 up at 2,373.69.

Telecom advanced to NZ$4.88 in early trading ahead of its third-quarter results, but ended 9 cents down on balance on the news at NZ$4.65.

SOUTH AFRICA

Shares fell back on afternoon selling which reversed an earlier gain in the industrial sector. Golds also dipped in reaction to a weaker bullion price, the index losing 58 at 1,885. Industrials shed 8 to 5,731 and the overall index 43 to 4,890.



FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	MONDAY FEBRUARY 7 1994								FRIDAY FEBRUARY 4 1994					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1993/94 High	1993/94 Low	Year ago (approx)
Australia (69)	184.45	-2.1	184.64	126.74	169.06	171.59	-2.1	3.00	188.48	187.31	128.78	170.10	175.32	189.15	121.25	121.25
Austria (17)	186.42	-2.5	186.61	128.09	170.86	170.54	-1.1	0.94	191.20	190.02	130.84	172.56	172.45	195.41	139.23	140.48
Belgium (42)	164.87	-1.9	165.04	113.29	151.11	147.76	-0.3	3.89	168.10	167.06	114.85	151.71	148.28	169.08	138.95	140.56
Canada (107)	137.61	-0.8	137.75	94.56	126.13	133.66	0.1	2.51	138.75	137.89	94.80	125.22	133.61	145.31	116.78	116.78
Denmark (32)	264.05	-2.5	264.32	181.44	242.02	245.67	-1.0	0.92	270.81	269.14	185.03	244.41	248.23	275.79	195.86	205.90
Finland (22)	148.70	-5.1	148.86	102.18	136.30	175.90	-3.2	0.58	156.72	155.75	107.08	141.44	181.79	156.72	65.50	68.23
France (90)	177.87	-3.1	178.06	122.22	163.03	166.66	-1.7	2.79	183.53	182.40	125.40	165.64	169.63	185.37	149.46	150.57
Germany (59)	128.37	-4.0	128.50	88.21	117.66	117.66	-2.5	1.80	133.71	132.89	91.36	120.67	120.67	142.38	107.59	108.88
Hong Kong (56)	462.90	-6.1	463.38	318.08	424.28	459.48	-6.0	2.31	493.01	489.96	336.85	444.95	488.89	506.56	229.11	229.11
Ireland (14)	190.92	-5.7	191.12	131.19	174.99	190.42	-4.2	2.93	202.44	201.20	138.32	182.71	198.73	208.33	129.29	138.21
Italy (66)	74.40	-2.6	74.48	51.13	68.20	94.42	-1.6	1.74	76.38	75.91	52.18	68.93	95.94	78.93	55.21	61.29
Japan (469)	147.59	-1.4	147.75	101.42	135.28	101.42	-0.9	0.80	149.75	148.82	102.31	135.15	102.31	166.91	105.65	105.65
Malaysia (68)	498.26	-4.6	498.78	342.37	456.69	530.78	-4.6	1.37	522.12	518.90	356.74	471.23	556.31	621.63	267.68	268.17
Mexico (18)	2603.03	0.2	2605.72	1788.64	2385.83	8836.87	0.2	0.57	2598.82	2582.76	1775.64	2345.43	8822.61	2603.03	1410.30	1572.01
Netherland (26)	199.56	-3.3	199.77	137.13	182.91	179.69	-1.9	2.95	206.34	205.07	140.98	186.23	183.08	207.43	156.01	155.01
New Zealand (14)	75.07	-1.9	75.15	51.59	68.81	69.65	-2.0	3.33	76.49	76.02	52.26	69.04	71.09	77.59	43.11	43.11
Norway (23)	196.72	-3.8	196.92	135.17	180.30	201.85	-2.4	1.26	204.44	203.18	139.69	184.61	205.85	204.44	138.69	139.63
Singapore (45)	347.99	-3.1	348.36	239.12	318.96	254.98	-3.0	1.82	359.16	356.95	245.40	324.15	262.86	378.82	213.57	219.69
South Africa (60)	260.24	-2.8	260.51	178.82	238.52	252.55	-1.9	2.27	267.75	266.09	182.94	241.64	257.35	280.26	160.78	164.98
Spain (42)	149.59	-3.4	149.74	102.79	137.11	161.40	-2.1	3.65	154.81	153.85	105.77	139.72	164.87	155.79	116.33	129.54
Sweden (36)	220.58	-4.1	220.81	151.57	202.18	260.63	-2.5	1.34	230.02	228.61	157.17	207.60	267.18	230.02	154.69	156.23
Switzerland (48)	169.22	-4.2	169.40	116.28	155.10	154.52	-2.4	1.41	176.56	175.47	120.64	159.35	158.23	176.56	109.14	111.68
United Kingdom (215)	207.12	-2.3	207.33	142.32	189.84	207.33	-1.6	3.47	212.02	210.71	144.86	191.35	210.71	214.98	182.00	167.23
USA (518)	191.94	0.4	192.14	131.89	175.92	191.94	0.4	2.73	191.12	189.94	130.58	172.48	191.12	196.04	178.29	183.43
EUROPE (744)	171.68	-3.0	171.86	117.97	157.38	167.40	-1.9	2.71	177.05	175.96	120.97	159.79	170.57	178.58	134.88	136.96
Nordic (113)	212.05	-3.9	212.27	145.71	194.36	220.16	-2.2	1.13	220.60	219.23	150.72	199.09	225.23	220.60	145.85	146.61
Pacific Basin (722)	160.00	-1.9	160.17	109.95	146.66	113.90	-1.5	1.07	163.18	162.18	111.50	147.28	115.61	168.80	110.41	110.41
Euro-Pacific (1466)	164.71	-2.4	164.88	113.18	150.97	134.85	-1.6	1.78	168.80	167.76	115.33	152.34	136.90	170.78	121.16	121.16
North America (625)	188.56	0.4	188.76	129.57	172.83	187.92	0.4	2.72	187.86	186.70	128.36	169.54	187.14	192.73	172.67	179.32
Europe Ex. UK (529)	149.51	-3.6	149.66	102.73	137.03	143.94	-2.0	2.22	154.92	153.97	105.85	139.82	146.92	156.73	117.89	118.29
Pacific Ex. Japan (253)	279.08	-4.3	279.37	191.77	255.80	256.78	-4.3	2.34	291.75	289.95	199.34	263.31	268.31	298.21	167.07	157.07
World Ex. US (1651)	166.66	-2.4	166.85	114.53	152.77	138.03	-1.6	1.79	170.68	169.63	116.62	154.04	140.24	172.51	122.39	122.39
World Ex. UK (1954)	170.91	-1.2	171.08	117.44	156.64	149.92	-0.8	1.98	173.05	171.98	118.23	156.17	151.06	175.58	138.71	138.60
World Ex. So. Af. (2109)	173.56	-1.3	173.74	119.26	159.07	154.11	-0.8	2.13	175.90	174.81	120.18	158.75	155.42	178.86	140.95	141.66
World Ex. Japan (1700)	189.84	-1.3	190.04	130.45	174.00	186.61	-0.8	2.66	192.36	191.17	131.43	173.61	188.20	195.20	159.44	162.53
The World Index (2169)	174.07	-1.4	174.25	119.61	159.54	154.81	-0.8	2.13	176.44	175.35	120.56	158.24	156.24	178.97	141.01	142.01

Latest prices were unavailable for this edition.